



PACIFIC ECONOMIC AND MARKET INSIGHTS

March Quarter 2023



Key trends at a glance

GLOBAL ECONOMY SLOWS DOWN



- Global inflation is expected to decelerate from 8.7% in 2022 to 7.0% in 2023. Advanced economies inflation rates are projected to slow down to 4.3% in 2023.
- Global GDP growth is expected to slow from 3.4% in 2022, to 2.8% in 2023. Monetary policy action is the key factor in global economic output forecasts.
- Apart from the Russian-Ukraine War and persistently high inflation, the recent financial system vulnerabilities pose a serious downside risk to global growth outlook.



COMMODITIES PRICE TRENDS



- Energy prices fell in Q1-23, as global supply and rising dollar impacted pricing outcomes.
- Precious metals inched higher in March as tightened supply and “banking crisis” fears pushed demand for safe haven assets.
- Cocoa prices continued their upward trend in Q1-23, driven by weather patterns affecting Ivory Coast cocoa yields.
- Arabica coffee prices declined, as positive weather conditions fueled crop prospects.
- Palm oil prices increased due to lower edible oil stocks.



PNG LOWER GROWTH IN 2023



- PNG’s 2023 GDP growth projected at 2.4%, lower than 2022 GDP of 3.2%. The downgrade is mainly driven by a delay in the restart of Porgera gold mine and anticipated lower output in the oil and gas sector.
- PNG’s Balance of Payments in 2023 is anticipated to be at negative PGK1.1b, as a deficit in the capital and financial account is expected to offset a surplus in the current account.
- There is some upside over the medium term outlook, as Papua LNG final investment decision is expected in late 2023 or early 2024.
- Inflation is anticipated to moderate to 5.0%, from 6.0% in the previous year. The decelerated inflation forecast for 2023 is mainly due to the easing of foreign inflation supplemented by improvements in the supply chain of energy and food commodities.
- PNG’s economic productivity continues to be battered by its constrained FX supply where regular BPNG market intervention is a necessity.
- Gross foreign reserves declined from PGK14.2b in Dec-23 to PGK13.7b in Mar-23.



SOUTH PACIFIC GROWTH EASES

- Growth in the Pacific for 2023 is forecast to slow down to 3.3%, from 2022’s estimate of 5.2%, mainly due to PNG and Fiji growth downgrades.
- Growth in the Pacific is mainly driven by the tourism sector.
- Inflation for the region is expected to slow down to 5.0% in 2023.
- Vanuatu and Tonga are slowly recovering from natural disasters that weakened their 2023 growth outlook.

REAL GDP GROWTH

	2022	2023	2024
	+15.9%	+6.3%	+3.0%
	-4.2%	+3.0%	+2.4%
	-6.0%	+4.8%	+2.5%
	-2.2%	+2.5%	+3.2%
	+2.0%	+1.0%	+4.2%
	+10.5%	+11.2%	+9.1%

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

BSP's economic and market views



Mark T. Robinson

Group Chief Executive Officer

What are your thoughts on the impact of the IMF US\$918 million (K3.2 billion) Extended Credit Facility and Extended Fund Facility on PNG?

- *In March 2023, the IMF approved PNG's request for US\$918 million under its Extended Credit Facility (ECF) and Extended Fund Facility (EFF). The 38-month IMF arrangement will support PNG's reform agenda, focusing on alleviating FX shortages, strengthening debt sustainability and enhancing governance.*
- *Although PNG recovered well from the effects of COVID-19, it is still faced with a constrained fiscal space, increased debt stock and FX shortages that often impedes business activity and discourages foreign investment. Addressing these issues will need effective policy action under PNG's reform agenda.*
- *If the government can soundly implement its reforms and properly address issues the economy is faced with under this facility, it will be an impetus for future economic growth in PNG and underline government commitment to progressive policy action.*

With the recent events unfolding around Silicon Valley Bank, Signature Bank and Credit Suisse, how is BSP positioned to withstand global headwinds?

- *BSP has a strong balance sheet and prudent liquidity management to protect our customers. We continue to monitor external financial contagions and the domestic economy to ensure customers' deposits are safe.*
- *Our capital adequacy and leverage ratios stand at 24.6% and 9.9% respectively, which are well above domestic and international regulatory standards.*

Are there any significant developments that could influence the PNG economy through the course of 2023?

- *The US\$10 billion (K35.2 billion) Papua LNG project has reached the front-end engineering and design (FEED) phase of the project, which is the last major stage before go-ahead is given. The project represents a significant investment in PNG and will serve as a catalyst for further economic growth.*
- *The final investment decision (FID) is expected in Q4-23 or Q1-24, which then triggers a construction phase that is expected to last four (4) years. Resource-adjacent sectors will see a sharp growth increase during this period, as their services are called on to support the construction phase.*
- *Barrick and the State have come to an agreement regarding the reopening of Porgera mine. It is estimated that Porgera reopening would result in an uplift of 1.4% in the economy.*
- *These two resource projects, and several more in the pipeline, represent significant tailwinds that will spur investment and activity in the medium-term. These projects provide the impetus for broader economic activity and solid foundation for long-term growth.*

BSP's economic and market views



Peter Beswick

Group General Manager – Corporate Bank

How would you characterise current business sentiment and what's driving the latter?

- *Business sentiment is robust following the announcement of the Papua LNG project reaching the front-end engineering and design (FEED) phase and Porgera's resumption progress announced by Barrick CEO early April.*
- *Papua LNG's final investment decision (FID) is expected to be reached in late 2023 or Q1 2024. This will deliver substantial opportunities through "local content" for landowner and PNG companies ... either directly or through Joint Ventures, with global engineering procurement and construction contractors.*
- *On the downside, the delay of Porgera's resumption will prolong distress with FX supply over the short-term. Total foreign currency reserves fell from US\$4.1b in 31st December 2022 to US\$3.9b as at 29th March 2023, due to government debt repayments and increases in BPNG FX intervention.*
- *BPNG states that the IMF funding of US\$918.2 million over the next three years for budget support, will have minimal effect on BPNG's international reserves, due to increases in intervention and government debt repayments. However, the medium-term outlook remains optimistic and will be dependent on the timely commencement of resource projects (Porgera, Wafi-Golpu, P'nyang, Twinza).*

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

- *Inflation still remains a primary concern for BPNG, businesses and consumers. Although, inflation is expected to recede in 2023, compared to last year, as lower global output, improvements with supply chain and lower commodity prices, especially on fuel, are to contribute to lower price pressures.*
- *Given inflation expectations, BPNG reported that it will pursue a neutral stance on monetary policy to September 2023. Although, it will remain vigilant on inflation levels throughout the course of 2023.*



Rohan George

Group General Manager – Treasury

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

- *FX market turnover in the March quarter fell 2.4% from the December quarter 2022.*
- *A pullback in commodity prices, in particular Oil, Copper and Palm Oil and the January holiday season reduced FX market turnover volumes.*
- *FX turnover for 2023 increased by 8.9%, compared to the prior year. Outstanding FX orders with BSP increased seven fold (700%) in the past quarter, with post Christmas import orders increasing rapidly, whilst FX inflows fell.*
- *BPNG FX intervention in the March quarter 2023 was unchanged from the previous quarter, but rose 59% from one year ago.*
- *Despite increased Central Bank intervention, the PNG FX market continues to miss the foreign currency contribution from Porgera.*
- *The Kina mid-rate was stable against the US dollar at 0.2840. The Australian dollar fell 1.5%, reflecting weaker commodity prices, concerns of an economic slowdown and a pause in interest rate increases.*

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 subdued FX inflows in the March quarter, we do not expect a pickup in FX inflows in the June quarter. BPNG will continue to support the market, however subdued commodity prices and the uncertain global environment will see outstanding FX orders remain at high levels and subsequent FX order execution times lengthy.*
- *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

Global output is expected to decrease on the back off a progressively tighter monetary stance by Central Banks. However, looming uncertainty about the health of the financial system poses a downside risk to global economic outlook.

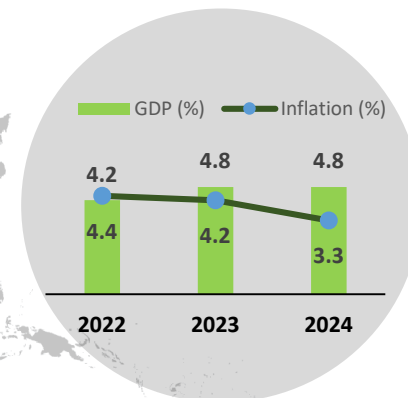
IMF WORLD ECONOMIC OUTLOOK- REAL GDP GROWTH (%)						
	IMF Prior Forecast (January-2022)		IMF Current Forecast (April-2023)		% change	
	2022	2023	2022	2023	2022	2023
World	3.4	2.9	3.4	2.8	0.0▲	-0.1▼
● Advanced Economies	2.7	1.2	2.7	1.3	0.0▲	0.1▲
United States	2.0	1.4	2.1	1.6	0.1▲	0.2▲
Euro Area	3.5	0.7	3.5	0.8	0.0▲	0.1▲
Japan	1.4	1.8	1.1	1.3	-0.3▼	-0.5▼
United Kingdom	4.1	-0.6	4.0	-0.3	-0.1▼	0.3▲
● EMDE's¹	3.9	4.0	4.0	3.9	0.1▲	-0.1▼
—China	3.0	5.2	3.0	5.2	0.0▲	0.0▲
—India	6.8	6.1	6.8	5.9	0.0▲	-0.2▼

Source: IMF World Economic Outlook (Jan-23 and Apr-23)

¹ Emerging Markets & Developing Economies

- Global output is expected to reduce from 3.4% in 2022 to 2.8% in 2023, as higher interest rates cool activity. Global Inflation is projected to recede from 8.7% in 2022 to 7.0% in 2023.
- Growth in advanced economies is projected to decline by about 50% in 2023 to 1.3%. Driven by the tighter monetary stance by many advanced economies, before rising to 1.4% in 2024. Inflation for advanced economies is expected to decelerate from 7.3% in 2022 to 4.3% in 2023.
- Stronger growth is projected for Emerging Markets and Developing Economies (EMDE). Growth of 3.9% is anticipated for 2023, a modest decline from 4.0% in 2022, before edging up to 4.2% in 2024.
- The lurking financial system vulnerabilities pose a downside risk to the global growth outlook. The IMF has warned that further financial stress could see global growth decline to about 2.5%, with advanced economies growth falling below 1%.

Developing Asia

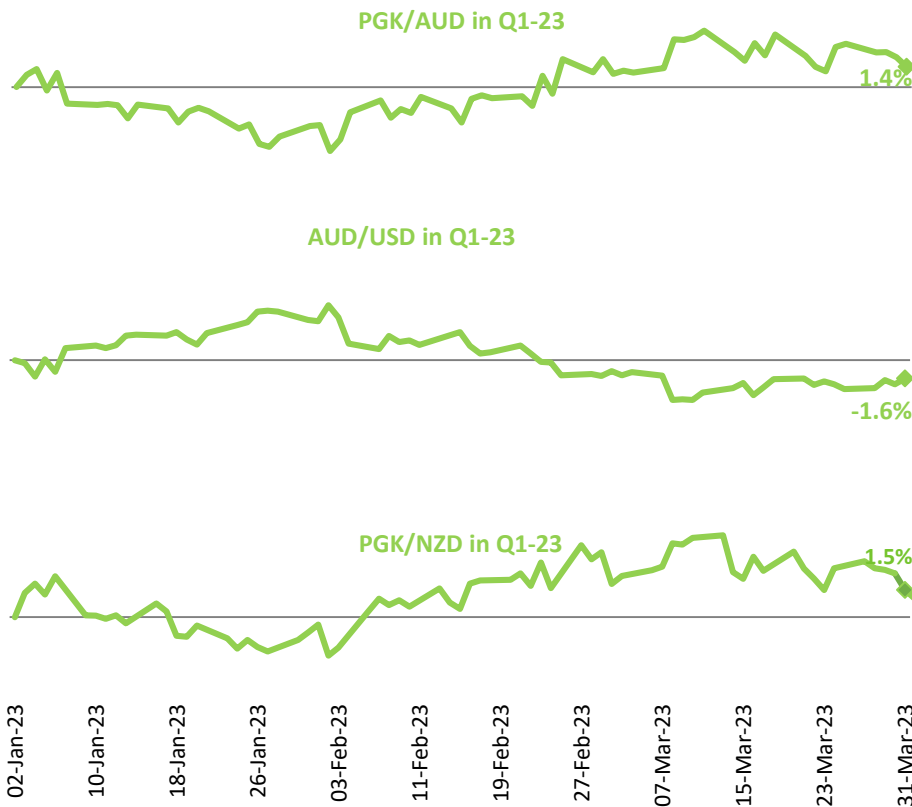


Source: ADB Asian Development Outlook (ADO) Apr-23

- The Developing Asia region is expected to expand by 4.8% in 2023, from 4.2% in 2022.
- The reopening of China markedly improved both the region and global economy's prospects for the year. East and Southeast Asia are to benefit from increased domestic demand with growth in the Pacific to be fueled by the return of tourists.
- Inflation forecast for the region stands at 4.2% for 2023, before easing to 3.3% in 2024, as it inches back to pre-pandemic levels on dissipating supply-side pressures.
- The Asian Development Bank forecasts growth in the Pacific to decline from 5.2% in 2022 to 3.3% in 2023, as lower growth forecasts for Papua New Guinea (PNG) and Fiji are expected to weigh down the sub-region's growth outlook for the year.

FX markets

The US Fed eased its aggressive tightening of monetary policy, as indicated by the lower interest rate hike in March ... following the collapse of several US banks, which raised concerns that banks could tighten lending in the coming months. The USD remained strong, closing higher against the AUD, NZD, and other major currencies. The strengthening of the USD resulted in an uplift for the PGK.



NOTES ON CURRENCY MOVEMENTS

- **USD** – In early March, the dollar hit its highest level since November last year, before investors’ concerns over stability of the U.S. banks triggered a sharp reversal in the dollar. The strength of the dollar is expected to be tied closely to U.S. inflation and interest rates.
- **PGK** – In Q1-23, the PGK/USD reference mid-rate closed at 0.2840 with fluctuations against other currencies in the quarter tied to USD movements. The PGK finished higher in Q1-23 against major currencies due to the cross currency effect of the strong USD.
- **AUD** – The AUD gained momentum against the USD early in Q1-23, however fell towards the end of Q1-23, closing at 1.6% lower against the USD and weaker against the PGK by extension. The PGK closed at 1.4% stronger than the AUD at end Q1-23.
- **NZD** – Similar to the AUD, the NZD made gains against the USD in early Q1-23 but closed 1.6% weaker at the end of Q1-23. The PGK was also 1.5% stronger against the NZD at the end of Q1-23.

Source: Forbes, Yahoo! Finance,

Commodity price trends

Q1 energy prices dropped, due to adequate inventories and the rising US dollar. Conversely, prices for precious metals increased amid tighter supply and the collapse of Credit Suisse and a small number of medium sized US banks.

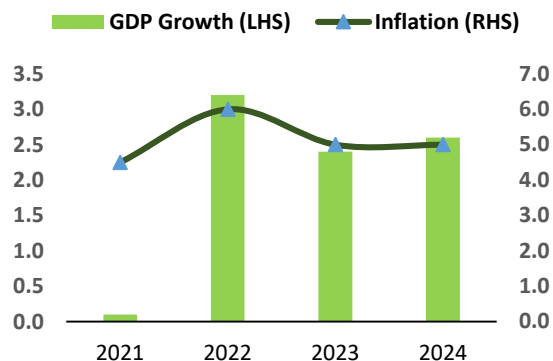
Commodity	Q1-2023 (Average price)	Q4-2022 (Average price)	Change (%)	Trend	Comments
Crude Oil, Brent [US\$/bbl.]	81.4	88.4	(7.8) ▼		Brent crude oil prices declined from previous quarter, weighed down by weak global sentiment after the Fed pushed back against bets of interest rate cuts for the year, sapping demand for dollar-priced crude.
LNG, Japan [US\$/MMBtu]	18.9	20.7	(8.7%) ▼		LNG prices decreased over Q1, as Europe's demand declined after its winter proliferated demand and the continent enjoyed a warmer than usual winter, which ensured adequate natural gas inventories amid lower consumption.
Gold [US\$/troy oz.]	1,888.3	1,729.0	9.2% ▲		Gold prices increased considerably in Q1, amid market volatility as concerns of a banking crisis with the collapse of Silicon Valley Bank and Credit Suisse stimulated gold demand.
Nickel [US\$/MT]	26,070.4	25,514.1	2.2% ▲		Nickel prices continue to remain volatile. The average price in Q1-23 was higher in comparison to Q4-22. However, nickel prices are actually on a downward trend as surplus supply in the nickel market continues to weigh down on its price expectations.
Copper [US\$/MT]	8,943.6	8,025.4	11.4% ▲		Average copper prices increased against previous quarter, driven by tight supply and anticipated strong demand. Demand is expected to increase over the next quarter, with China surprisingly cutting its reserve requirement ratio.
Palm Oil [US\$/MT]	954.7	925.0	2.3% ▲		Palm oil prices increased in Q1, following a plunge in global edible oil stocks and a decline in export surpluses.
Arabica Coffee [US\$/kg]	4.8	4.9	(0.8%) ▼		Arabica coffee prices decreased in Q1. Positive weather conditions continue to fuel crop prospects in Brazil which has driven a cooling of Arabica coffee price expectations.
Cocoa [US\$/kg]	2.7	2.4	10.9% ▲		Cocoa prices continued their upward trend in Q1, fueled by supply tightness in top producer Ivory Coast, as weather variations in West Africa weighed on the supply outlook for the quarter.

Source: Bloomberg, Reuters, tradingeconomics, S&P Global market Intelligence, World Bank pinksheet

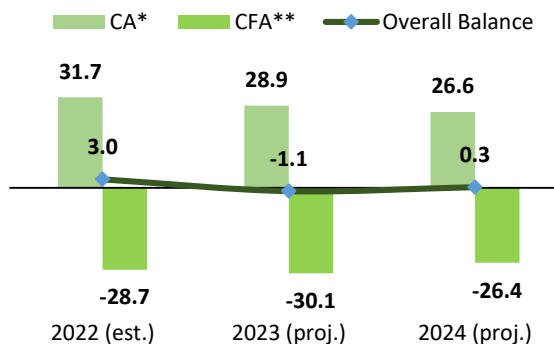
PNG's economic outlook

The PNG economy is expected to see a decline in growth in 2023 that can mainly be attributed to the delay in Porgera's resumption and drop in petroleum and gas output. The latter is also likely to add to PNG's constrained FX supply.

GDP & INFLATION



BALANCE OF PAYMENTS (K'b)



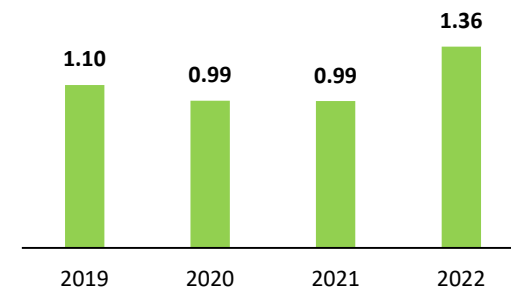
Note: *CURRENT ACCOUNT;
**CAPITAL AND FINANCIAL ACCOUNT

- The ADB expects the PNG economy to grow by 2.4%, a 0.8 percentage point decrease from 2022's estimated growth of 3.2%.
- The 2.4% revised growth forecast for 2023, is a sharp downgrade from the ADB's earlier 4.9% forecast. The forecast downgrade is mainly attributed to a delay in the restart of Porgera gold mine in Q2 of 2023 and the envisaged drop in petroleum and gas output.
- Inflation is expected to moderate to 5.0% in 2023, from 6.0% in 2022. This is mainly due to the easing of foreign inflation, supplemented by improvements in the supply chain of energy and food commodities.

- PNG's external sector recorded an overall BOP surplus of K3.0b in 2022, due to a surplus of K31.7b in its current account. This surplus was mainly driven by increased export receipts, as a result of higher production and international prices for major export commodities.
- In 2023, BOP is projected at a deficit of PGK1.1b, as the deficit in the capital and financial account of K30.1b is expected to offset a K28.9b surplus in the current account. This is indicative of a build-up in offshore foreign currency account balances of mineral companies.

FOREIGN EXCHANGE SUPPLY

BPNG Intervention (K'b)



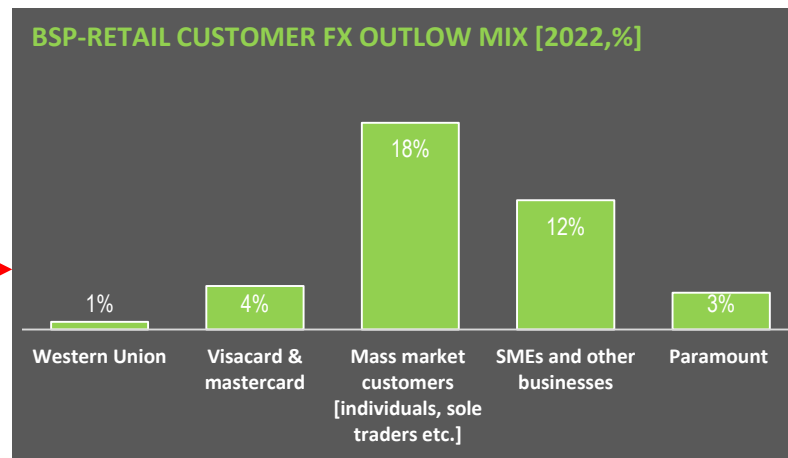
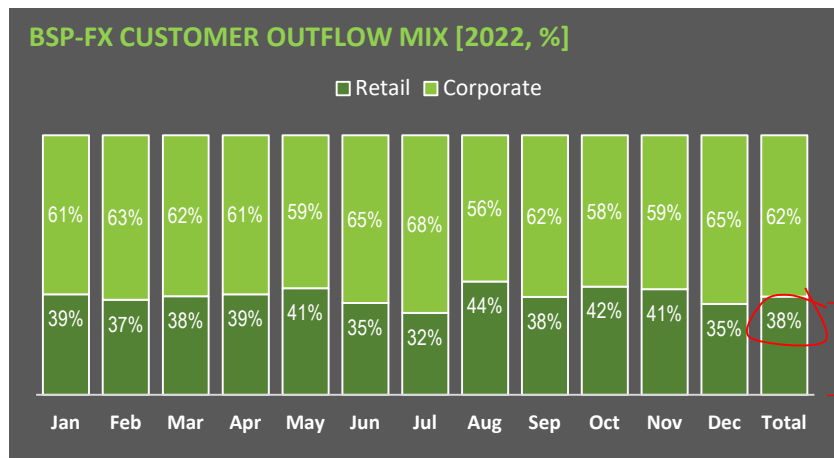
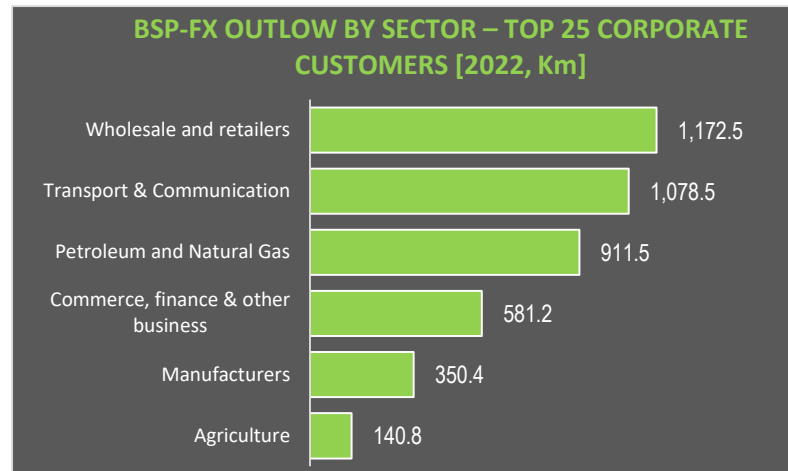
- PNG continues to face constrained FX supply. The closure of Porgera in 2020 only added to PNG's FX woes and the recent push back of its resumption prolongs distress in the FX market.
- To assist with FX supply, BPNG regularly intervenes in the market. In 2022, BPNG interventions totaled K1.36b.
- According to BPNG March-23 MPS, the level of gross foreign reserves was K14.2b as at 31-Dec-22. As at 29-Mar-23, gross foreign reserves declined to K13.7b, reflecting Government debt repayments and foreign exchange interventions by BPNG.

Source: BPNG Monetary Policy Statement (MPS) Mar-2023, ADB Asian Development Outlook-Apr-23.

Foreign currency support in PNG

Given BSP's market leading commitment to retail and small and medium-sized enterprise customers in PNG, a substantial percentage [38%] of our FX supply was allocated to these critical customer segments in 2022 ... the remaining 62% was made available to corporate customers. While providing foreign currency to all sectors of PNG's economy, BSP prioritises trade payments, ensuring the economy continues to function at times of foreign currency shortages.

- In 2022, 38% [K 3.6b] of BSP's critical FX supply was made available to retail and SME customer segments.
- Mass market customers [individuals, sole traders, etc.] remitted K1.8b in 2022, which was equal to 18% of BSP's total FX outflows. FX supply was also provisioned to ensure the smooth running of international payment channels such as Visa, MasterCard and Western Union. These services collectively accounted for K441m or 5% of the Bank's available FX supply.
- The remaining 12% of FX was made available to BSP SME customers. BSP continues to be a strong supporter of the PNG Government's economic policy to grow the number and capacity of PNG's SMEs.
- BSP provided substantial FX support to wholesalers & retailers, telecommunication & transportation service providers, fuel providers & manufacturers.



Resource sector updates

Papua LNG reached the FEED project phase in February, which will be followed by FID that is expected in late 2023 or Q1-24. A new shareholding in Porgera was agreed between various PNG stakeholders (51%) and Barrick Niugini Ltd (49%), signaling a step forward after negotiations were stalled since 2020.

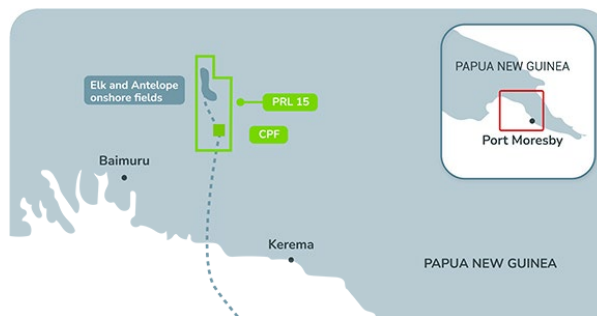
PORGERA GOLD MINE

- On 30 March 2023, the shareholders of New Porgera Limited signed an agreement to progress with the reopening of Porgera mine.
- It is estimated that Porgera was responsible for 1.4% of PNG's GDP and 10% of PNG's exports at the time of its closure.
- After ramp up and optimization, it is expected that Porgera will produce 700,000 oz. of gold per year, which is a significant boost to national output.
- New Porgera Limited now needs to obtain a special mining lease before the mine can restart.



PAPUA LNG

- Papua LNG has entered the Front-End Engineering and Design (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 late 2023 or 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

● P'nyang (K39.2 billion)

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.

● Wafi-Golpu (K18.2 billion)

The Framework MoU was signed between the Government and Wafi-Golpu Joint Venture partners, which is a significant step forward in negotiations. The State's equity will be 30% (10% carried for Morobe Province and landowners), while receiving 55% of the total economic benefit.







● Pasca A (K5.6 billion)

The offshore gas project is currently slated to follow immediately after P'nyang gets the go ahead. It is estimated that Pasca A will bring in K18 billion for the Government over the life of the project.

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

South Pacific economic outlook

Growth in the Pacific is expected to decline from 5.2% in 2022 to 3.3% in 2023. While the general outlook remains positive with the increased activities in the tourism sector, the downward growth revision is mainly attributed to the lower growth prospects from Papua New Guinea and Fiji.

REAL GDP GROWTH [%]				
	2022e	2023p	2024p	COMMENTARIES
	15.9%	+6.3	+3.0%	Real GDP growth of 15.9% for 2022 was supported by a rebound in activity in its tourism sector as borders opened up at the end of 2021. The ADB projects growth to moderate to 6.3% and 3.0% in 2023 and 2024 respectively, as activity in the economy is expected return to pre-pandemic levels.
	-4.2%	+3.0%	+2.4%	According to the ADB, real GDP contracted by 4.2% in 2022, due to the economic fallout from COVID-19 restrictions. In 2023, the Solomon Island's growth is expected to rebound to 3.0%. Growth expectations are driven by the 2023 Pacific Games and financial support provided by donors for large-scale infrastructure projects. This is anticipated to spur growth in its wholesale, construction, retail trade, transportation and public services sectors.
	-6.0%	+4.8%	+2.5%	Samoa's GDP contracted by an estimated 6.0% in 2022, due to the economic impacts of COVID-19 restrictions. Growth prospects for 2023 are positive, with a projected growth of 4.8%. However, the outlook remains mixed as international competition in the Pacific's tourism sector may limit Samoa's ability to sustain visitor growth. These factors are expected to limit growth in 2024 to 2.5%.
	-2.2%	+2.5%	+3.2%	The impact of the volcanic eruption in January 2022 contributed to Tonga's 2.2% economic contraction in 2022. In 2023, the Tongan economy is expected to grow by 2.5%, as a result of continued public investment. Although border restrictions have eased, the volcanic eruption has impacted tourist accommodation capacity, subduing tourism's contribution to Tonga's economic recovery. Tonga's economy is expected to grow by 3.2%, in 2024.
	+2.0%	+1.0%	+4.2%	Vanuatu's estimated 2022 growth was 2.0%, as the opening of its international borders on 1 July 2022 stirred growth in its tourism related sectors. The ADB is now forecasting slower growth of 1.0% in 2023, as the economy was devastated in March 2023 by Cyclone Judy and Kevin (Category 4 cyclones) and earthquakes impacting overall output for the year. Recovery and reconstruction costs for damages is expected to tighten Vanuatu's fiscal capacity in 2023.
	+10.5%	+11.2%	+9.1%	Cook Islands is estimated to have rebounded by 10.5% in 2022 following a recovery in its tourism sector as borders reopened in January 2022. ADB now forecasts the Cook Islands to grow by 11.2% in 2023, due to the sustained recovery in its tourism sector (driven by New Zealand arrivals) and a boost from key infrastructure project construction (Rarotonga Airport, health facilities, roads etc.).

Source: ADB Asian Development Outlook Apr-23; OSB's respective Central Banks.

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