

Monetary Policy Statement | 12 April 2022

The Bank of PNG (BPNG) released its latest [Monetary Policy Statement \(MPS\)](#) on 31 March 2022. The MPS is released every 6 months by BPNG at the end of March and September and **sets out BPNG's economic outlook and its management of monetary policy**. This is the first MPS released by the newly appointed BPNG Board and Acting Governor since the latest Central Banking Act (CBA) Amendments last December. This **Note** sets out a summary of the MPS.

BPNG's objectives have increased...

The Statement acknowledged that the CBA Amendments have increased BPNG's objectives in terms of monetary policy. The CBA had initially mandated BPNG to focus primarily on managing **inflation**. However, the amendments explicitly require BPNG to also 'promote employment and economic growth in the non-mineral and non-petroleum sectors, placing equal emphasis on stability, growth and development.' (These responsibilities are in addition to the BPNG's role of regulating the financial sector and payments system).

Why Non-resource Economic Growth and not total GDP?

The CBA Amendment's reference to 'non-mineral and non-petroleum sectors' is a reference to PNG's 'non-resource GDP', which has been well publicized in various Budgets and policy documents for some time now. This bifurcation of PNG's GDP measurement acknowledges the country's distinct growth paths between the 'resources sector' and the 'non-resources sector'.

The capital-intensive resources sector is mostly driven by foreign-owned companies with dividends repatriated overseas, and the growth in this particular economic sector can often inflate total GDP growth.

Therefore, PNG policy makers place emphasis on the growth path of the 'non-resource GDP' growth, which is now acknowledged in the CBA amendments as one of BPNG's objectives.

Inflation vs Non-Resource Economic Growth

This twin objective of **managing price stability (inflation) and promoting non-resource economic growth** will be challenging. **Economic growth leads to increased demand in the economy, which can lead to an upward pressure in prices**. The MPS points out that BPNG will need to 'find the balance between the optimal economic growth paths for creating employment in the non-resources sector, with a tolerable level of inflation'.

MPS | Domestic Economic Outlook for 2022

- **Real GDP growth is forecast at 2%** this year; compared to contractionary growth since 2020
- **High Commodity Prices and Increased Gold and Copper Production** are expected to drive resource GDP
- Increased Government Spending continues to drive non-resource GDP - BPNG urged the Government to spend wisely
- BPNG remains bullish on GDP growth in the next 12-18 months, driven by:
 - **Porgera** recommencement in 2023
 - Agriculture/Forestry/Fishing **support for export receipts**
 - **Micro, Small and Medium Enterprise** sector support
- According to the **BPNG Business Sentiment Survey**, **employment and sales figures** are expected to improve in 2022

Inflation	Headline Inflation is forecasted at 5%
Balance of Payments in the balance with surplus at PGK0.4b vs PGK2.5b in 2021.	Current Account surplus (due to high international prices) will be off-set by a Capital and Financial Account Deficit (due to debt servicing by the Government and PNG LNG project partners)
Foreign Reserves	PGK11.9b, which is 8.5 months of import cover
FX	PGK/USD remained stable at 0.2840 PGK/AUD depreciated due to AUD strength
Net Foreign Assets	+11.8% due to proceeds from the Government's external borrowing
Net Domestic Assets	+13.5% reflecting increased Government borrowing from the domestic market

Issues for Consideration highlighted in the MPS

- current ownership and development arrangements extractive resource projects sector are not benefiting PNG - and BPNG encouraged the Government to re-assess the current regime
- new CBA amendments assert Fiscal policy dominance over monetary policy management - BPNG will fund Budget deficits
- further delays in re-opening Porgera, supply-chain bottlenecks, the on-going pandemic, inflationary pressures, together with the global impact of the Russia-Ukraine crisis pose a downside risk to both the global and domestic growth projections

Monetary Policy Stance

- BPNG will maintain its accommodative monetary policy stance for the next 6 months until September 2022 to support the on-going economic recovery, considering the challenging economic landscape

Looking Forward

- International Monetary Fund (IMF) has forecasted global growth of 4.4% in 2022 (vs 5.9% in 2021)
- 2022 Real GDP growth at 2% in PNG is conservative in our opinion
 - Elevated commodity prices with **election-related spending** will drive economic activity during the next 6 months: however, **inflation pressures will persist**
- **Annual headline inflation of 5% seems relatively low right now**
 - Higher oil prices are already being felt locally - with domestic fuel prices already increasing by nearly 40% since January
 - Increased borrowing to support fiscal stimulus will also add to inflationary pressures
- **Supply-chain** bottlenecks continue to drive imported inflation

BPNG MPS | GDP Forecasts (%)

	2019	2020	2021	2022	2023	2024
Total GDP	4.5	-2.8	-2.4	<i>f</i>	<i>f</i>	<i>f</i>
Non-Mineral GDP	1.6	-1.1	2.5	1.3	2.0	2.0

f = forecasts

Source: BPNG 2022 March Monetary Policy Statement