Elizabeth Genia: September 2024 Monetary Policy Statement

Speech by Ms Elizabeth Genia, Governor of the Bank of Papua New Guinea, at the September 2024 Monetary Policy Statement, Port Moresby, 7 August 2025.

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Daba Namona, Morning Tru and Good Morning All.

Firstly, let me acknowledge the owners of the land, the Motu and Koitabu people, and their elders past and present.

I also want to extend a very warm welcome to our government representatives, CEO's of financial institutions, members of the diplomatic corps and our development partners, ladies and gentlemen.

On behalf of the Board and management of the Bank of Papua New Guinea, thank you for joining us this morning at the launch of the Central Bank's September Monetary Policy Statement.

When we met at the launch of the March Monetary Policy Statement, just over six (6) months ago, we spoke at length on the persistent inflationary pressures in the economy and discussed, at times, difficult decisions the Bank would need to make in maintaining price stability.

With the Kina Facility Rate, at that time, at a historic low of 2.0%, and further measured, and gradual depreciation, required in the kina, we were then embarking on adopting a tightening monetary policy stance.

Let me begin today by reviewing the monetary policy decisions the Bank has made over the past six months, before providing an update on where we are now, and then outlining the path ahead.

The Kina Facility Rate was increased to 2.5% in May, accompanied with an increase in the Cash Reserve Requirement from 10% to 11% of all deposits held with the commercial banks. These complementary measures were designed to absorb some of excess liquidity from the banking system and to assist in strengthening the monetary policy transmission mechanism.

In further addressing the long-standing issue of the excess of liquidity in the financial system, the Cash Reserve Requirement was further increased to 12% in June.

The increases in the Cash Reserves Requirements, resulted in liquidity tightening to the extent that the yields on Treasury Bill increased and we saw, for the first time in many years, a steepening of the yield curve out to 12 months and beyond.

The more recent increases in the KFR to 3.0% in August and to 4.0% in September helped alleviate some of the pressure on the steepening in the yield curve while aligning our overnight policy rate with those of our major trading partners.

While there is still some work for us to do in improving the effectiveness of our monetary policy transmission mechanism, I wanted to outline to you, at the outset this morning, a brief review of the monetary policy decisions that we have made and the reasoning behind them.

Let me now turn to the impact of those decisions - starting with inflation. Headline inflation has been trending downward since 2023, reaching a record low of 0.1 percent in the June quarter of 2024.

Headline inflation is something we observe at the Central Bank, but far more important for us is the underlying, or core inflation measure.

Core inflation measures, the trimmed-mean and exclusion-based inflation, increased by 3.2 percent and 5.5 percent respectively. Inflationary pressures have become less broad-based and we expect inflationary pressure continue to be driven by increases in the prices of domestic goods towards the December quarter, maintaining upward pressure on inflation well into the second half of 2024.

We are also maintaining our headline inflation projection at 5.0 percent and underlying measures at 5.5 percent in 2024, with inflation expected to remain in line with historical norms in the medium term.

A tighter monetary policy stance is necessary to manage these inflation risks, given the probability of global commodity price shocks and further price stability risks associated with adjustments in the Kina exchange rate, under the crawl-like exchange rate arrangement.

In 2025, inflation is expected to moderate to around 4.5 percent, contingent on stable commodity prices and exchange rate movements.

Next – to the impact of those monetary policy decisions on interest rates.

Following our tightening of monetary policy, wholesale interest rates on Government securities increased significantly to pre-COVID levels, while the adjustment to deposit rates was much slower.

However, we have observed that one or two of the banks have raised their term deposits rates to lure some of the major deposit holders.

In the third quarter of 2024, the commercial banks' Indicator Lending Rates were between 7.20 percent and 11.70 percent, with only one bank increasing its Indicator Lending Rate during the quarter. There was little change in interest rate spreads, with weighted average deposit rates at 0.23 percent, and lending rates around eight percent.

These lending margins are well above global averages and will be addressed, in part, with increasing competition in the banking sector in the years ahead. Credit Bank and TISA recently obtained their commercial banking licenses and we are looking forward to further entrants to the market.

The excess of liquidity in the banking system continues to be a major challenge to the effective implementation of monetary policy, and we are looking at a range of policy options to address this.

Recent changes include the introduction of an interest rate corridor and reserve averaging for the commercial banks - these measures are designed to further assist with the absorption of excess liquidity from the banking system and strengthen the monetary policy transmission mechanism giving us greater control over the risks to price stability and economic growth.

Just briefly on the domestic economy. It has been a very difficult year for businesses in PNG. We do, however, believe the worst is behind us. We expect growth for 2024 to land at around 3 percent, driven mainly by the mineral sector, and while the non-mineral sector has experienced a slower expansion, it has been driven by construction activity and higher prices for some agricultural exports (notably cocoa and coffee). Government spending, particularly on construction, has also supported growth this year.

Our growth forecast for 2025 and 2026 is around 4.3 percent and 3.7 percent, respectively, reflecting increased capacity and full year production from the Porgera gold mine and construction activity in other resource projects.

Looking ahead, the prices of PNG's agricultural exports remains high, but most are easing from their 2022 peaks. Gold and copper remain strong, while other metals are easing. Oil and gas prices have come down from COVID pandemic highs as supply increases, helping to moderate global inflationary pressures but potentially reducing profitability for PNG's extractive industries.

I look forward to the day when I can stand before you talking to an appreciating Kina and the economy being boosted through increased foreign direct investment. For now though, the difficulties experienced by individuals and businesses in sourcing foreign currency remains a challenge and of concern, as does the relative value of the kina when compared to the currencies of our major trading partners.

Monetary policy in PNG has been complicated by the persistently overvalued exchange rate since 2014, which, without effective capital mobility and a shortfall in the supply of the foreign exchange from exports, has resulted in persistent excess demand for foreign currency.

This year, we introduced several foreign exchange reforms. In January we implemented a crawl-like exchange rate arrangement to help reduce the Kina's overvaluation and ensure its price is more reflective of its market rate.

We also introduced a weekly Foreign Exchange Auction in May 2024, to provide more frequent and predictable access to FX liquidity - providing increased transparency to the market with those intervention funds used for essential orders only.

Progress has been slow but I am pleased to report these reforms have had a positive impact. Access to foreign exchange has very gradually improved, and, while outstanding orders remain high, the extent of the Bank's intervention with its foreign reserves means there is more foreign currency available in the market, though the excess of demand for foreign currency over that actually available, remains high.

Over the eight months to August, inflows into PNG's domestic FX market amounted to PGK12.8 (or US$3.4) billion, while total outflow was PGK17.4 (or US$4.6) billion. As a result, there was a net outflow of K4.6 (or US$1.2) billion which was primarily met by BPNG's intervention of K3.8 (or US$1.0) billion.

We are currently intervening in the domestic foreign exchange market with US$125.0 million each month and we will continue to support the market, with that level of intervention, for as long as is needed.

I need to also address the recent legislative changes to the Central Banking Act that were passed by the Parliament in September.

This is the last Monetary Policy Statement from the Bank of Papua New Guinea under the current governance structure. The recently passed amendments to the Central Banking Act, include a provision for the establishment of a new Monetary Policy Committee.

Monetary Policy will in future be determined by the newly established Monetary Policy Committee, comprising of myself as Governor, our Deputy Governor, and three appointees who are not members of the Bank of Papua New Guinea Board.

This means that the independence of the Monetary Policy Committee is further enhanced, with only the executive members, the Governor and the Deputy Governor, sitting on both the newly established MPC and the BPNG Board.

The membership of the Committee and the Board is decided by the Head of State acting on advice from the National Executive Council and Treasurer.

The three new committee members must now be appointed and we hope this process will move forward smoothly and that the new committee is in place as soon as is practical.

The changes to the Act also require the Monetary Policy Committee to publish a statement after each meeting, including each individual members' votes and their reasoning behind their decisions. This will add transparency to the process of setting monetary policy and provide a greater understanding of the considerations behind the decisions that are made.

A further legislative change has clarified our objectives to make price stability now our primary and overarching objective. Our secondary objectives are to ensure financial stability; promote sustainable medium term economic growth, especially in the non-mineral and non-petroleum sector; and to promote the development of Papua New Guinea's financial system.

Let me conclude by talking a little about the difficulty businesses are facing at this point in time. The Bank's Business Sentiment Survey, conducted in July 2024 suggests that firms are operating in a very high-cost environment which is adversely impacting on their operations.

Prices are expected to remain high while efforts are being made to source cheaper alternatives to manage costs and increase revenue and profit margins.

It has been a very difficult year but we are expecting further improvement in the second half driven by higher activity in construction, agriculture, wholesale and retail, finance and insurance, and mining sectors.

I want to emphasise though that the Bank does not underestimate the challenges businesses are facing and the pressure you are under currently.

The challenges you face are not unique to PNG; but they are made more difficult by our domestic barriers to business, including excessive red tape and poor infrastructure.

Addressing these structural issues is essential to creating an environment where businesses can thrive, and we recognise the need for coordinated efforts with the government and private sector to remove these obstacles.

The policy adjustments we have been making at the Bank of Papua New Guinea with respect to the exchange rate, improving the effectiveness of monetary policy transmission and the recent legislative changes enhancing the independence of our monetary policy decisions, are all part of the reform process setting the foundation in place for sustainable and inclusive economic growth for the future.

We are in a period of change – transformational change – and our focus is on ensuring these reforms are implemented properly so that your business can access foreign currency on demand, inflation remains well controlled, and long-term prosperity is within reach for all Papua New Guineans.

Thank You.