

## **Elizabeth Genia: Presentation of the March 2026 economic outlook, inflation and monetary policy**

Opening remarks by Ms Elizabeth Genia, Governor of the Bank of Papua New Guinea, on the March 2026 Outlook on the Economy, Inflation and Monetary Policy, Port Moresby, 9 March 2026.

\* \* \*

Daba Namona. Morning Tru Olgeta.

I acknowledge our distinguished guests, representatives from the Government and members of the Diplomatic Corps, our valued development partners from the IMF, the World Bank and the Asian Development Bank, officials from Treasury and other government departments and members of the banking community, ladies and gentlemen.

Papua New Guinea is a richly diverse and inclusive society and we respectfully acknowledge the traditional custodians of the land on which we gather today - the Motu and Koitabu people - and we honour their enduring connection to this place.

### **Introduction**

It is a pleasure to welcome you this morning to the Bank of Papua New Guinea's March 2026 outlook on the economy, inflation and monetary policy.

As many of you know, the Bank's primary objective under the Central Banking Act is to achieve and maintain price stability.

Our secondary objectives, to the extent they are not inconsistent with the primary objective, are to ensure financial stability, to 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.

These objectives guide our decision-making and also guide our presentation this morning. Monetary policy does not exist in isolation; it is inseparable from the broader economy. That is why we present not only our inflation outlook and monetary policy decisions, but also the wider economic context in which those decisions are made.

This morning, I will begin with the global outlook, focusing in particular on the implications of the recent escalation of the conflict in the Middle East and the heightened uncertainty this introduces.

I will then turn to domestic economic conditions and share the Monetary Policy Committee's latest decisions before addressing two issues that I know are very much on the minds of the community - Papua New Guinea's grey listing by the Financial Action Task Force, and the path ahead as our IMF Program draws to a close. I will conclude with some thoughts on how we at the Bank can strengthen our communication and engagement with the private sector.

## **Global Economy**

Let me begin with the global picture. I should note at the outset that the global outlook has changed materially following the outbreak of conflict in the Middle East. I will come to that in a moment but let me first set the baseline from which we were working when the Monetary Policy Committee met on 2 March.

The International Monetary Fund's January 2026 World Economic Outlook projects global growth at 3.3 percent in 2026, easing slightly to 3.2 percent in 2027.

That baseline reflected a broadly resilient global economy navigating meaningful but manageable headwinds. Shifting trade policies, including the ongoing effects of tariffs introduced by the United States, were creating instability, disrupting supply chains, and contributing to volatility in financial and commodity markets.

At the same time, large fiscal deficits and high public debt in many advanced economies were putting upward pressure on long-term interest rates. Offsetting these pressures was a surge of private investment in technology and artificial intelligence, particularly in North America and Asia.

Global inflation was on a downward path, from 4.1 percent in 2025 to a projected 3.8 percent in 2026, driven by tight monetary policy, declining energy prices, and easing supply chain disruptions. That was the global picture until ten days ago.

The outbreak of conflict in the Middle East has introduced a new and significant source of uncertainty into the global economic outlook. The disruption to maritime transport and energy supply in the region has already pushed global energy prices sharply higher.

If the conflict persists and energy prices remain elevated, the effects could be far more consequential. Higher energy prices would feed directly into global inflation at a time when central banks in many advanced economies have only recently brought inflation back toward target. In that scenario, global interest rates could remain higher for longer, slowing investment, and weighing further on economic growth.

For Papua New Guinea, the implications of an extended conflict cut in both directions. On the one hand, higher global energy prices would lift the value of our LNG and condensate exports and improve export earnings and government revenues. On the other hand, we will also see domestic prices increasing due to imported inflation.

We are an import-dependent economy and higher global energy prices flow through quickly to fuel, freight, and the prices of a wide range of goods. If global growth slows in response to tighter policy rates, demand for our non-energy commodity exports, including copper, nickel and agricultural products, could also soften.

Against this background of global uncertainty, which is likely to continue in the months ahead, Papua New Guinea's economic outlook will ultimately depend on how these global developments interact with conditions here at home.

## **Domestic Economy**

Recent data showed that domestic economic growth remains positive overall though activity was uneven in different sectors. Let me go through the main drivers.

## **GDP Growth**

For 2024, real GDP was 3.9 percent, slightly below the Bank's earlier estimate of 4.1 percent. Growth was driven by higher gold production from Porgera, Ok Tedi, Lihir and other mines, and broad-based growth across agriculture, construction, utilities and transport. This was partly offset by lower LNG production following a scheduled shutdown for maintenance.

For 2025, the Bank has revised its GDP estimate up significantly, from 4.2 percent to 5.3 percent. LNG is the main driver, with production resuming fully after the 2024 maintenance period. Gold, nickel, cobalt and crude oil production are now estimated to be above earlier projections. On the non-mineral side output also appears stronger, with higher production of palm oil, cocoa, copra and rubber.

For 2026, we project growth of around 3.0 percent. This represents a return to a more sustainable pace of growth after an exceptionally strong 2025. The mineral sector will be led by continued strong output from existing mines, with Porgera approaching full capacity.

Non-mineral growth will be supported by agriculture, fisheries and forestry, as well as services - particularly finance, telecommunications and transport. Government spending on infrastructure and essential services will also contribute.

This pattern of growth reflects an economy that continues to perform steadily while adjusting to changing global and domestic conditions. The overall picture is broadly consistent with the feedback we are receiving from businesses across the country although it is important to note that these projections were prepared before the events of the last ten days.

## **Business Sentiment**

While the national accounts give us one view of economic activity, the Bank's Business Sentiment Survey provides a valuable window into conditions on the ground. Our January 2026 Business Sentiment Survey shows a cautiously positive outlook, and I would like to thank the many businesses across the country that take the time to complete the survey.

Your participation provides valuable insights that help the Bank better understand what is happening in the real economy. Firms pointed to better access to foreign exchange, government infrastructure spending, and strong gold prices as the main positives.

Prices for coffee, cocoa and palm oil have eased from earlier highs, copper prices have been volatile, and firms continue to face structural challenges around utilities, roads and security.

The minimum wage increase from K3.50 to K5.00 an hour, effective the first of January, has had a mixed impact - many larger firms were already paying above the new rate, while labour-intensive sectors are expecting tighter margins.

## **Inflation**

Inflation developments also reflect this broader economic picture. Our annual headline inflation outcome for the December quarter was 4.1 percent, but the story behind that number is important. Betelnut prices rose 29 percent, largely reflecting seasonal movements.

Excluding betelnut, headline inflation was 1.2 percent, broadly in line with our core measures of between 0.7 and 1.8 percent. The removal of GST on 13 essential goods and lower global food prices, particularly cereals, rice and wheat, have helped keep underlying inflation contained.

Looking ahead, we have revised our 2026 headline inflation forecast upward to around 4.0 percent, reflecting these seasonal pressures. Core inflation is expected to increase slightly to within a 2.5 to 3.0 percent range, supported by a slower pace of Kina depreciation and easing global oil prices.

These projections do not take into consideration the impact of the latest developments relating to the conflict involving Iran. Over the medium term, all inflation measures are expected to converge toward 3.0 percent. The zero-rated GST policy concludes at the end of 2026 and we will be monitoring closely for any pass-through effects on prices.

## **Balance of Payments and Reserves**

One further important element to consider before turning to the monetary policy decision is the external position. The preliminary overall balance of payments recorded a surplus of K2.6 billion in 2025, driven by strong export performance, particularly in gold and LNG.

Gross international reserves reached USD 4.1 billion by early February, up from USD 3.5 billion in September. This represents approximately seven months of total import cover and eleven months of non-mineral import cover - both well above the international benchmark of three months.

In practical terms, this provides a strong buffer to support the currency and meet external payment obligations. For 2026, we project a balance of payments deficit as higher financial account outflows - driven primarily by debt servicing - more than offset a large current account surplus.

The current account surplus is expected to narrow relative to 2025 as some commodity prices ease from their recent highs and external financing of the National Budget declines. Looking further ahead, the sovereign bond repayment of USD 540 million due in 2028 will require careful planning, and this is something the Bank and the government are already preparing for.

## **MPC Meeting - March 2026**

Against this backdrop of steady economic growth, underlying inflation within target ranges and rapidly evolving global developments in the two days prior, the Monetary Policy Committee met one week ago today to consider the appropriate settings for monetary policy.

The Committee decided to maintain the Kina Facility Rate at 5.0 percent, to keep the Cash Reserve Requirement at 9.0 percent, and to continue the current pace of exchange rate adjustment, with the exchange rate serving as the nominal anchor for inflation.

Overall, the Committee judged that the current monetary policy settings were consistent with a broadly neutral monetary policy stance and appropriate given contained underlying inflation and steady economic activity.

## **Strait of Hormuz**

The conflict involving Iran introduces an additional layer of uncertainty. To understand why events in the Strait of Hormuz have led to this supply shock, let me briefly explain why this region is so important to global energy markets.

On this map you can see Iran to the north, with Oman and the United Arab Emirates to the south. Behind the Strait lies the Persian Gulf, where many of the world's major oil refineries and LNG export terminals are located - including facilities in Qatar, Kuwait, Saudi Arabia and the UAE.

The coloured lines on this chart show the density of tanker traffic. Almost all of that traffic converges on this very narrow passage - the Strait of Hormuz - which is effectively the only maritime exit from the Persian Gulf to global markets. Because such a large share of global energy shipments must pass through this single corridor, disruptions in this region can quickly affect global oil and gas prices.

This is why events in this part of the world can translate very quickly into global energy supply shocks.

## **Global Structure of the LNG Market**

To understand what this means for Papua New Guinea LNG, it is helpful to step back and look at how the global LNG market is structured. As this chart shows, the global LNG trade is largely organised into three regional systems - the Americas, the Europe-Africa region, and the Asia-Pacific market.

Papua New Guinea sits firmly within the Asia-Pacific system, supplying directly to North-East Asia, particularly Japan and China, two of the world's largest LNG importers. Importantly, LNG shipments from Papua New Guinea can be routed directly north to these markets, avoiding exposure to disruptions in the Strait of Hormuz and the congestion risks associated with navigating the Strait of Malacca on the way to North-East Asia.

In an increasingly uncertain global environment, our location in the region strengthens Papua New Guinea's position as a stable and reliable energy supplier to the region.

## **Supply Shock**

The experience in many countries shows that supply shocks of this kind will temporarily put upward pressure on inflation. While we don't know how prolonged this disruption will be, monetary policy does not typically attempt to offset the immediate price effects of these price shocks. However, the Committee will monitor events closely to ensure they do not develop into more persistent second-round inflationary pressure across the broader economy and stands ready to adjust policy settings as necessary to maintain price stability.

## **Exchange Rate as the Nominal Anchor for Monetary Policy**

Before leaving the topic of monetary policy, it is important to explain the role of the exchange rate in the monetary policy framework. In many advanced economies, short-term interest rates are the primary instrument used to anchor inflation expectations.

In Papua New Guinea, our priority at the moment is for the Kina to adjust to a market-clearing level where the Kina is readily convertible.

The interest rate transmission channel remains relatively weak, while movements in the exchange rate have a direct and immediate impact on domestic prices and the exchange rate is currently our most effective tool for anchoring inflation expectations.

A gradual and predictable adjustment of the Kina helps to provide businesses with greater certainty, it supports our exporters, moderates import demand and keeps price movements contained.

The Kina depreciated by 2.3 percent in nominal terms against the US Dollar, from US\$0.2388 to US\$0.2333 between September 2025 and 11th February 2026. In terms of the Trade Weighted Index (TWI), the Kina fell by 4.9 percent over the same period indicating cross-currency movements driven by higher global commodity prices, and trade and geopolitical tensions.

We can see the impact of the exchange rate more clearly when we separate headline inflation into its tradable and non-tradable components. Tradable, or imported, inflation reflects the prices of internationally traded goods and services - items such as imported fuel, food and manufactured products. These prices tend to move relatively quickly when the exchange rate changes.

Non-tradable inflation, by contrast, reflects the prices of locally produced goods and services, such as housing and utilities, which are influenced more by domestic economic conditions. It is useful to highlight the difference between these two components, and it helps explain why the exchange rate plays such an important role in anchoring inflation expectations.

We can also see the supply-side response to the gradual adjustment in the Kina when we look at foreign currency inflows over time. As the exchange rate has adjusted, inflows of foreign currency into the market have increased.

This partly reflects stronger investment flows associated with the ramp-up of activity in the mining sector, as well as improved incentives for foreign exchange to enter the domestic market. Together, these factors are helping to increase the availability of foreign exchange and move the market gradually toward a more balanced and better functioning domestic FX market.

This improvement is also seen in the backlog of foreign exchange orders. The backlog has been reduced significantly. Many firms are now reporting faster turnaround times when placing foreign exchange orders, which is helping to ease day-to-day operational pressures.

At the same time, stronger inflows of foreign currency have encouraged additional demand as businesses that had previously delayed transactions return to the market with those orders making it more difficult to obtain a clear read on the underlying level of foreign exchange demand.

However, it is clear that underlying demand is still there and it is substantial, and the Bank is monitoring these developments closely as the market continues to adjust.

Before leaving the topic of monetary policy, there is one final point I would like to touch on which is the excess of liquidity in the banking system. The sector continues to hold relatively high levels of liquidity - this reflects the strength and stability of the financial system - but it also means there is a significant pool of funds available.

We're comfortable with where those levels are at the moment - it is assisting the three new entrants to the banking sector as they actively seek deposits to build their balance sheets, and we are starting to see early signs of this through gradually rising deposit rates and more competitive deposit products.

Over time, this increased competition should strengthen the transmission of monetary policy by encouraging more active competition for deposits and a clearer pass-through of policy signals across the banking system. This will also be supported by the gradual development of the interbank market which is a priority for the bank and is an area I expect to address in more detail in the future.

## **FATF Grey Listing**

Moving away now from monetary policy and turning to PNG's recent inclusion on the Financial Action Task Force's grey list - the term used for countries placed under increased monitoring to strengthen their anti-money laundering and counter-terrorism financing (AML/CFT) frameworks – means we have important work ahead of us.

This development was not unexpected. Following our Mutual Evaluation Report in 2024, the FATF identified areas where PNG's AML framework could be strengthened - particularly around prosecutions and the recovery of assets.

In January, the National Coordinating Committee (NCC) on AML/CFT agreed to an Action Plan with the FATF containing 18 milestones PNG must meet to come off the list. Meeting these milestones will demonstrate a minimum standard but they will not resolve every deficiency.

It is however, an important starting point, and the 23 government agencies represented on the NCC are working hard to deliver on these reforms.

Grey listing does not mean Papua New Guinea is sanctioned or unsafe to do business. Many countries have been placed on the grey list and have successfully come off it again once reforms were implemented.

What it does mean is that international financial institutions and counterparties will apply greater scrutiny to transactions into, and out of PNG and this may lead to additional compliance checks or requests for information.

Legislative changes are coming ahead of our first deadline in September, but the real test will be strengthening and demonstrating the effectiveness of our AML framework in practice.

## **IMF Program and new policy framework**

Turning briefly to the IMF Program which is scheduled to conclude at the end of 2026 and though still nine months out from that point, the reforms under the IMF Program are already delivering meaningful results.

The crawl-like exchange rate arrangement has served as an important anchor for price stability during the program period. It has allowed us to adjust the Kina in a measured and a gradual way, reducing the misalignment in the exchange rate without triggering the kind of disruptive shock that a sudden adjustment would bring and this approach has worked well to date.

As the program draws to a close, I can say that the Bank has had a very positive engagement with the IMF and I hope that this constructive dialogue and technical cooperation will continue beyond the life of the program.

## **Communications**

Finally, I want to say something about how the Bank intends to engage with you - the private sector - and our other stakeholders going forward.

Our effectiveness as a central bank depends not only on the soundness of our policies, but also on the quality of our communication. We know that when people understand what we are doing and why, it reduces uncertainty, instils confidence and builds credibility, all of which are important.

We are also committed to improving the quality and accessibility of the information we publish. Our Economic Outlook, Monetary Policy Statements, and other publications will continue to evolve as we seek to communicate our analysis as clearly and effectively as possible.

## **Closing Remarks**

Let me conclude with one final important point.

Though the global economy has been growing at a steady pace, the conflict involving Iran has introduced a significant level of uncertainty. The full economic consequences of this will depend on how the conflict unfolds and how long it continues.

Our economy is entering this period of global uncertainty with some resilience, inflation remains contained, our reserves are adequate. We are watching developments closely and will respond through our policy settings if needed.

The Bank will continue to pursue its mandate with independence and transparency, working closely with government, the private sector and our development partners to support a stable financial system and sustainable economic growth for the people of Papua New Guinea.

Thank you for your continued engagement with the Bank and we look forward to continuing to work closely with you as we navigate through the challenges and opportunities ahead.

Thank you.