

BSP Treasury and Markets

PACIFIC QUARTERLY ECONOMIC & MARKET PULSE

December Quarter 2024

GLOBAL ECONOMY

Global growth in 2025 is projected to remain resilient, contingent on managing inflation, innovation, and green investment amid ongoing risks.

COMMODITIES

Agricultural commodities thrived in 2024, with cocoa prices driven by climate challenges and palm oil supported by strong demand, biodiesel blending, and stable production.

PNG Economy

In November, the PNG Government approved a K28.357 billion budget with a K2.9 billion deficit, funded through borrowing, and projected a 4.5% GDP growth for 2024.

PACIFIC MARKETS

Pacific Markets project positive GDP growth for 2024-2025, with moderating inflation. External risks, such as geopolitical uncertainties and commodity price fluctuations, remain concerns.

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Mark T. Robinson
Group Chief Executive Officer

Financial Inclusion in the South Pacific

As the Anchor Partner of the Commonwealth Business Forum at the biennial CHOGM summit in October, BSP highlighted the importance of addressing barriers to financial access in the Pacific. Financial inclusion policies that support government-private sector initiatives, expand access to credit, enhance digital financial services, and build trust are key to unlocking growth, which ultimately benefits all levels of society and ensures collective prosperity.

PNG's Banking Industry: Resilience

Papua New Guinea's banking sector is resilient and evolving, with increasing competition and digital investments to meet market needs, especially in underserved areas. However, the sector's continued growth will be impacted by the outcome of the Mutual Evaluation review, which could pose a risk if PNG is placed on the grey list.

Tax Reduction for Commercial Banks

PNG's 2025 National Budget introduces a proposed tax reduction for commercial banks, structured in two tiers:

- Banks with taxable income below K300 million: Tax rate to reduce to 40% in 2025 and further to 35% in 2026.
- Banks with taxable income above K300 million: Tax rate to decrease by 1% annually, starting at 44% in 2025, reaching 35% by 2034.

BSP Financial Group Limited, with taxable income exceeding K300 million, falls under the second tier. This gradual reduction is expected to provide sustained tax relief while fostering market growth and potentially attracting new entrants to the banking sector.

Positive GDP Growth Projections

The World Bank projects favorable GDP growth for BSP's Pacific Market economies in 2024 and 2025, driven by factors such as increased domestic demand, government spending, and tourism-related activities. Fiji, the Solomon Islands, and Samoa have experienced stronger-than-expected visitor arrivals, contributing significantly to their economic expansion. Tonga's growth is being propelled by expansionary fiscal and monetary policies, coupled with substantial public investment projects. While the specific drivers vary by country, a common theme across these economies is the reliance on robust domestic demand as the foundation of their growth projections.

Inflation Moderation

Inflation trends across the region reflect a consistent pattern of moderation. Fiji, Samoa, and Vanuatu have all seen a decrease in inflation compared to previous periods. Fiji, in particular, experienced a notable drop from 5.2% to 3.8%. The Cook Islands, while observing a slight uptick in inflation towards the year's end, still align with the broader trend of inflation being kept under control. These trends indicate that inflation is generally stabilizing across the region, contributing to a more favorable economic environment.

External Risks to Economic Performance

Despite positive growth and moderating inflation, many countries in the region face external risks that could affect their economic performance. Geopolitical uncertainties and fluctuations in global markets present key risks. For instance, the Solomon Islands is particularly vulnerable to global commodity price fluctuations, while Vanuatu has faced setbacks in tourism due to the liquidation of Air Vanuatu and natural disasters. These shared external vulnerabilities highlight the sensitivity of these economies to global shocks, despite the positive domestic factors supporting their growth.

BSP's Economic and Market Insights



Daniel Faunt

Group General Manager – Corporate Bank

What is the business sentiment in the fourth quarter of 2024?

- Business sentiment remained strong, reflecting a year of resilience and positive performance across key sectors. This optimism was largely driven by the continued growth of resource industries, particularly mining and oil, which benefited from sustained global demand and high commodity prices. The strong performance of these industries not only contributed to economic stability but also reinforced confidence among businesses operating in resource-dependent sectors. With global markets maintaining a steady appetite for minerals and energy resources, companies within these industries were able to capitalize on favorable conditions, leading to increased investments and expansion opportunities.
- Beyond the resource sector, non-resource industries also demonstrated strong performance throughout the year. Sectors such as agriculture and retail experienced stable growth, largely supported by consistent commodity prices. Key agricultural exports, including palm oil, cocoa, and coffee, remained in high demand, enabling businesses within these industries to benefit from favorable trading conditions. The stability of agricultural prices played a crucial role in maintaining profitability for smallholders and exporters, ensuring that the sector remained a significant contributor to economic growth.
- Meanwhile, import-dependent businesses also experienced positive growth trends. The demand for imported goods signals a prosperous economy where businesses are expanding their operations to meet customer needs. This trend was further reinforced by record foreign exchange (FX) turnover in the fourth quarter of 2024, highlighting the robust trading activity within the country.
- However, despite the encouraging signs of business growth, the rising demand for imports also underscored an ongoing challenge—the imbalance between market demand and foreign exchange availability. While businesses welcomed the ability to access imported goods to support their operations, limited foreign exchange liquidity remained a constraint, requiring ongoing measures to ensure a stable and efficient currency supply.



Rohan George

Group General Manager – Treasury & Markets

How was foreign exchange liquidity and the Kina in the fourth quarter of 2024?

- FX market turnover rose 2.6% in Q4 to record levels of K15.3 billion, due to increased foreign currency inflows from exporters, driven by firmer gold, palm oil, cocoa, coffee prices and stable copper prices. While export FX inflows were strong in December, volatility in FX flows were smoothed through weekly BPNG intervention, K1.5 billion over the quarter, contributing 19.6% of FX inflows to the market in Q4 2024, down from a high of 25.6% 12 months ago.
- BSP Customer Outstanding FX Orders peaked at K595 million in October, before the pickup in December FX inflows from exporters reduced BSP Customer Outstanding FX Orders to K61 million at year's end.
- Consequently, at year's end, FX order execution times had shortened to days. We do expect FX order execution times to vary between 2 and 6 weeks in the first quarter 2025.
- BPNG intervention is helping reduce the continuing structural imbalance between FX inflows and outflows.
- The pace of PGK/USD depreciation under the “crawling peg” was steady, falling by 2% to 0.2500 in Q4. Against the Australian dollar, the Kina rose 9.2% to 0.4020, with the Australian dollar plummeting on continued weak Australian and Chinese economies, a strong U.S. economy with business sentiment buoyed by the election of a pro business President. Additional pressure continues to be applied to the Australian dollar by Fund Managers and Retail Investors investing a record AUD 5 billion in U.S. equity markets in 2024.

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

- With BPNG maintaining a monetary policy tightening bias, and 1 Year Treasury Bills rising to 8.64%, it's likely the PGK will continue its gradual depreciation against USD by approx. 0.7% per, month or 8% p.a. We are expecting FX inflows to fall from record levels seen last quarter, as importers restock after Christmas, service providers resume work and mines undergo annual maintenance. Outstanding Market FX orders will increase quickly and execution times increase to 2 to 6 weeks again.
- Availability of foreign currency remains volatile, despite weekly BPNG intervention smoothing FX market liquidity. It's critical that customers place FX orders through BSP FX Online as quickly as possible, with correct documentation to avoid any unwanted delays.

Global Economic Outlook

The incoming Trump Administration, with its proposed changes to trade, fiscal policies, and other key areas, is likely to be a significant influence on global market and economic projections.

World Growth

	OECD	INTERNATIONAL MONETARY FUND	WORLD BANK GROUP
2024:	3.2%	3.2%	3.2%
2025:	3.3%	3.2%	3.2%

Growth projections from major agencies indicate resilience amid current challenges, with global growth in 2025 expected to remain stable. However, the outlook is clouded by inflationary pressures, geopolitical tensions, and climate change impacts. Sustained growth will require effective inflation management, fostering innovation, and investing in green technologies to support an inclusive recovery.

Incoming Trump Administration - International Trade and Tariffs

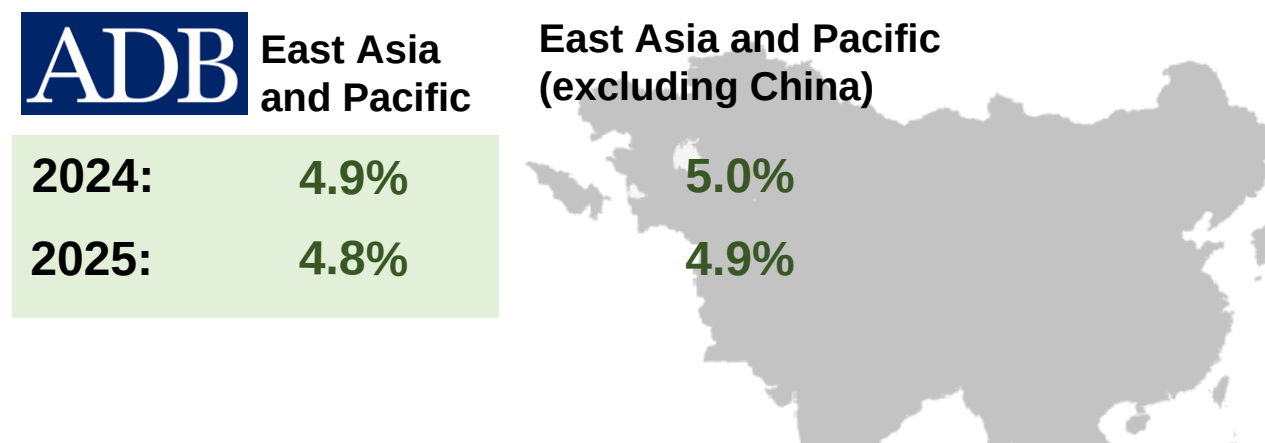
As of January 2025, Donald Trump's trade and tariff policies are expected to align closely with the approach taken during his previous administration. Emphasizing "America First" principles, these policies are likely to prioritize reducing trade deficits, protecting U.S. industries, and addressing perceived unfair global trade practices.

Based on his earlier policy framework and analysis from Reuters, the anticipated key elements of Trump's trade agenda include:

- Maintaining tariffs on China and reducing trade imbalances.
- Re-negotiating trade deals to prioritize U.S. interests.
- Expanding tariffs on steel, aluminum, and other sectors.
- Strengthening intellectual property protections.
- Promoting U.S. energy exports and revising trade with allies.
- Reasserting control over global trade rules to align with U.S. priorities.

Trump's trade policies in 2025 are expected to continue focusing on advancing U.S. economic interests and addressing perceived inequities in the global trade system.

Developing Asia - Growth Projections for the region



ADB Asian Development Outlook – December 2024

- The December 2024 update of the ADB's Asian Development Outlook revised growth projections for Developing Asia, reflecting a 0.01% decline for 2024 and 2025 in East Asia and the Pacific, including and excluding China.
- This downward adjustment is primarily attributed to weaker-than-expected growth in the Republic of Korea and a continued decline in private consumption in China. Additionally, potential policy shifts under a second Trump presidency could further impact China's 2025 outlook. Higher-than-expected tariffs and their accelerated implementation by the U.S. on the PRC and other major trading partners may exacerbate trade tensions and economic fragmentation.

Pacific - Impact of Recent Disasters on Vanuatu's Growth Projections

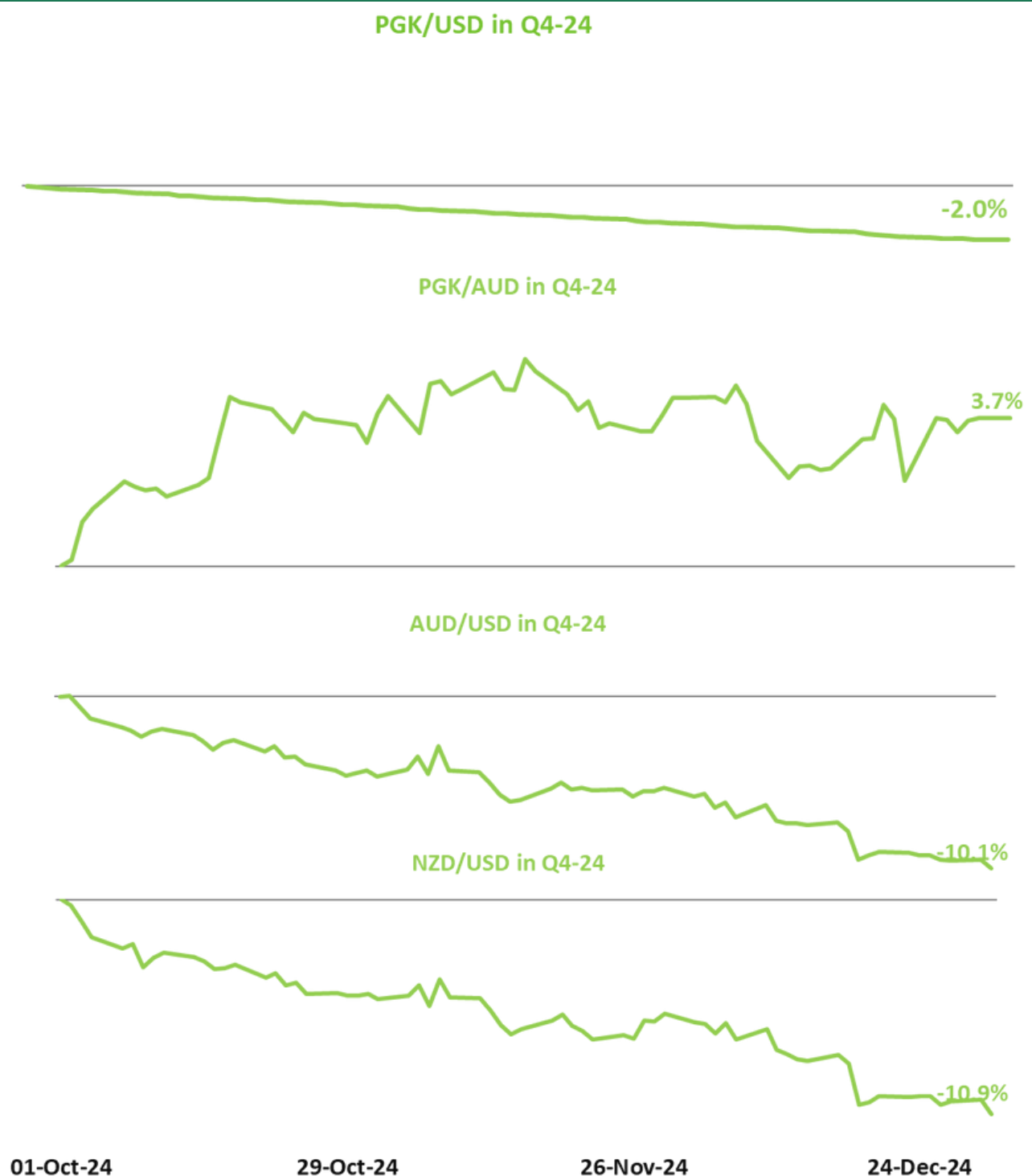
The earthquakes on December 17, 2024, and another less than 24 hours later, were catastrophic, affecting approximately 80,000 people. The World Bank's Global Rapid Post-Disaster Estimation placed the damages at around US\$197 million. These events further strained Vanuatu, which was still recovering from the twin cyclones of 2023 and the liquidation of its national airline. Together, these consecutive crises have significantly impeded the nation's growth projections for 2024 and 2025, presenting formidable challenges in rebuilding and stabilizing its economy.

Source: World Bank, IMF October 2024, OECD Press Release - December 2024

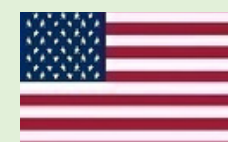
Currency Trends

In the December quarter of 2024, the USD outperformed the AUD, supported by stronger U.S. economic data. Meanwhile, the Australian Dollar faced downward pressure due to weaker commodity prices and concerns over slowing domestic growth.

Currency Movements



Commentary



USD – During the December quarter of 2024, the USD saw significant gains against most major currencies, largely driven by the results of the U.S. Presidential Elections. The dollar index rose to 108.49, its highest level since November 2022. This upward momentum persisted despite the Federal Reserve’s decision to implement a 0.25% rate cut in both November and December. Additionally, policy proposals outlined by President Trump during his campaign provided further support to the USD, maintaining its strength amid global economic uncertainties.



PGK – At the close of Q4 2024, the PNG kina midrate stood at 0.2500 against the USD. The Bank of Papua New Guinea's strategy to depreciate the kina through a crawling peg regime led to a 52-point decline in the kina midrate, reflecting a 2.03% decrease from the previous quarter’s close. The PGK/AUD cross began the quarter lower but strengthened towards the end as the US dollar gained in value.



AUD – The Aussie Dollar reached its lowest level in four years, closing the quarter at AUD 0.6188. Its underperformance was initially attributed to Trump’s victory in the U.S. election, which sparked economic uncertainty surrounding his proposed policies. Additionally, communication from the Reserve Bank of Australia (RBA) and ongoing concerns over the Chinese economic outlook further weighed on the AUD’s performance. By the end of the quarter, the AUD was trading below AUD 0.62, marking its lowest level since April 2020.

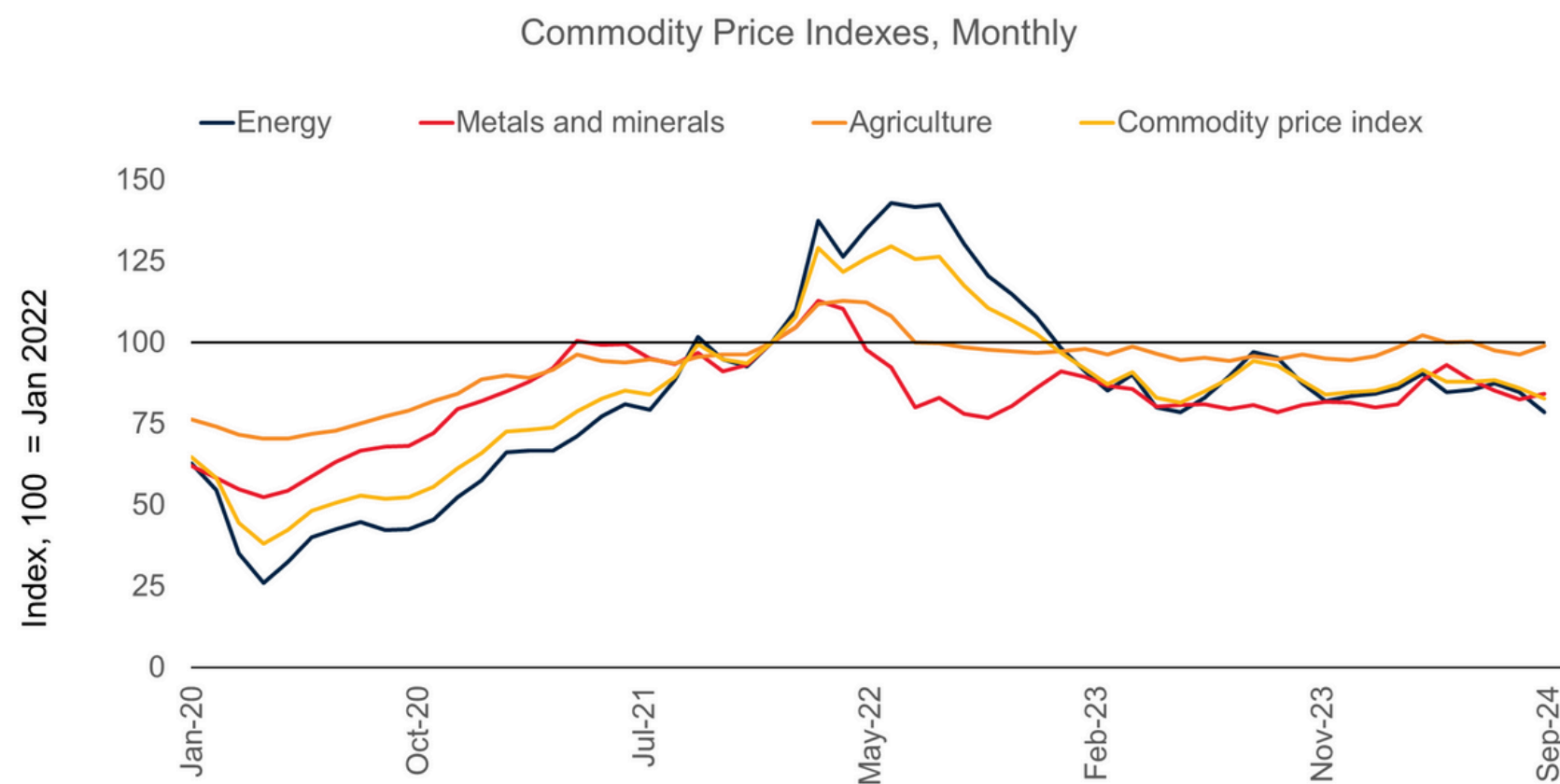


NZD – At the close of Q4 2024, the NZ dollar was 10.9% lower than the previous quarter, at 0.5594. The NZ dollar faced challenges throughout the quarter, despite support from the rising Commodity Price Index. The strength of the USD and economic uncertainties surrounding the incoming Trump administration significantly impacted the NZ dollar’s performance.

Source: Reuters, Bloomberg, BPNG, Western Aus. Treasury Corp., CNBC, ANZ Commodity Price Index, RBA Commodity Price Index, Yahoo Finance

Commodity Price Trends

Commodity prices on a Month-on-Month basis



Commentary:

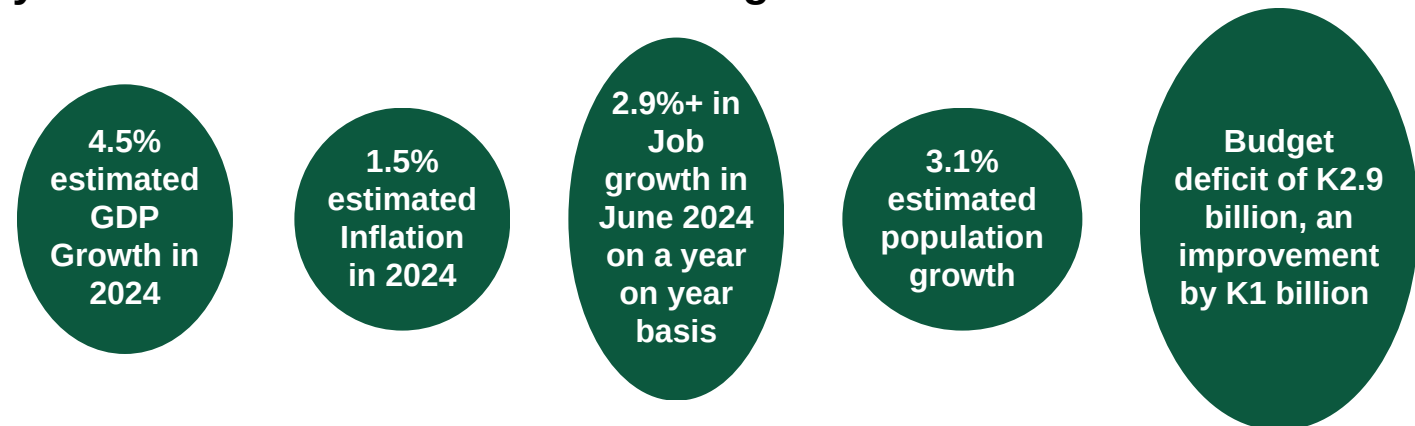
- Cocoa prices remained strong, driven by ongoing production challenges in West Africa. Fluctuations in global cocoa prices reflect supply-demand imbalances and climate-related factors. Changing weather patterns have resulted in irregular rainfall and rising temperatures in major cocoa-producing countries, fostering the spread of pests and diseases such as black pod disease and cocoa swollen shoot virus. These combined impacts are expected to keep cocoa prices elevated over the next year.
- Palm oil prices were supported by higher domestic demand in key producing countries. The market is set to remain strong in 2025, building on its robust performance in 2024, where it outpaced rival vegetable oils. The positive outlook is driven by increased biodiesel blending, higher tariffs, and sustained strong demand, while production levels remain stable. These factors continue to underpin palm oil's resilience and growth potential.
- Agricultural commodity prices performed well in the fourth quarter and throughout the year. Economies reliant on these commodities benefited significantly, with strong prices providing vital support to their growth and stability.

Commodity	Q3-24 (Average price)	Q4-24 (Average price)	Change (%)
Crude Oil, Brent [US\$/bbl.]	77.31	74.02	-0.05▼
LNG, Japan [US\$/MMBtu]	14.10	14.03	0.00▲
Gold [US\$/troy oz.]	2,511.49	2664.06	0.07▲
Nickel [US\$/MT]	16,261.44	16067.85	-0.03▼
Copper [US\$/MT]	9,209.87	9220.16	-0.01▼
Iron Ore (US\$/mt)	101.14	100.95	-0.03▼
Palm Oil [US\$/MT]	3,870.92	4805.42	0.24▲
Arabica Coffee [US\$/kg]	245.73	283.31	0.17▲
Cocoa [US\$/kg]	7,272.70	8696.75	0.18▲

Source: World Bank Commodity prices- October data, Bloomberg Closing Prices

The PNG Government remains confident in its 13-Year Budget Repair Plan, though global growth and inflation may impact business activity in 2025.

Key Numbers from 2025 National Budget



PNG Government Passes K28.357 Billion Budget for 2025

At the end of November, the PNG Government approved a K28.357 billion budget despite facing criticism from the opposition. This budget reflects a deficit of K2.9 billion, which the government plans to finance through a combination of domestic and external borrowing.

Building on last year's theme, "Securing Our Future," the 2025 National Budget is centered around the theme "Securing PNG in 2025 and Beyond." Its key focus areas include:

- Security: Allocating increased funding to the Police, Defence Forces, and Judiciary to foster a safer and more secure society.
- Reducing Cost-of-Living Pressures: Removing GST from 13 essential goods to ease household expenses.
- Increased Investments: Emphasizing investments in human and capital resources as well as infrastructure development.
- Education and Health: Boosting the education and health budgets by 12% and 9.4%, respectively.

The 2025 budget anticipates a 3.6% rise in expenditure, alongside an 8.6% increase in revenue. The government remains committed to its 13-year Budget Repair Plan, with the goal of achieving a surplus budget by 2027.

Non-Extractive Industry

Tax Reduction for Commercial Banks

The passing of PNG's 2025 National Budget introduces a decrease in the Corporate Income Tax for commercial banks, with two tiers of reduction:

- For banks with taxable income below K300 million, the tax rate will be reduced to 40% in 2025 and 35% in 2026.
- For banks with taxable income above K300 million, the tax rate will drop by 1% to 44% in 2025, with a further 1% reduction annually until it reaches 35% in 2034.

These reductions aim to attract more competition and players to the banking sector.

Twinsa Oil Ltd: Pasca A

The PNG Government signed a Gas Agreement on December 19, 2024 with Australian company Twinza Oil Limited, advancing the US\$1.5 billion Pasca A project in the Gulf of Papua. The Pasca A reservoir is located 90km from the shores of Gulf Province at water depth of approximately 90 meters. Under the terms of the Gas Agreement the State is expected to receive 70% of project benefits, inclusive of taxes, royalties, and dividends resulting from a 50% participating interest in the development. In May 2024 Twinza and MRDC announced an agreement whereby MRDC will acquire up to 50% of Pasca A. The development is now progressing FEED activities in preparation for a final investment decision (FID) expected well within three years.

Extractive Industries

Strong Performance of Ok Tedi Mine in 2024

In 2024, OTML maintained strong performance, reinforcing its position as a key resource producer in Papua New Guinea. The mine achieved stable copper and gold production while focusing on operational efficiency and environmental sustainability. Export quantities remained robust, making a significant contribution to the national economy.

A key highlight was OTML's efforts to extend the mine life until 2050, with plans for increased resource exploration and enhanced operations. The company continues to prioritize environmental stewardship, community engagement, and sustainable growth in PNG's mining sector.

Business Advantage - Key Takeaways from Investment Week

Pasca A Development Progress – The gas agreement has been signed, moving the Pasca A project forward, though the Final Investment Decision (FID) is still pending.

P'nyang Development Fast-Tracked – ExxonMobil and joint partners are accelerating preparations for the P'nyang project.

Wafi Announcement Delayed – No major updates on the Wafi project, with announcements expected in 2025.

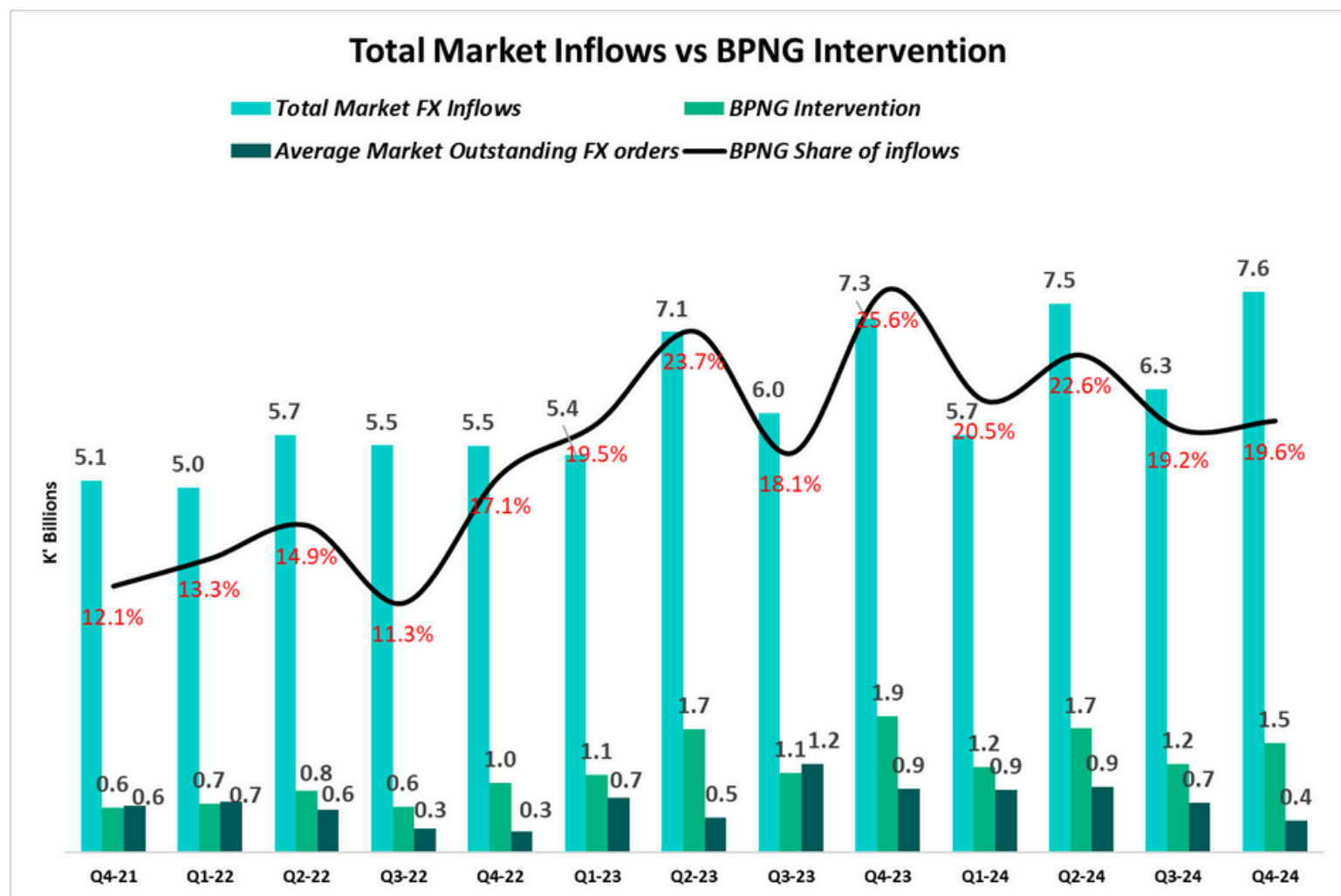
Production Sharing Reform – Plans for production-sharing reforms in the oil and gas sector are set for 2025.

Partial Privatization of PNG Power and Telikom – Approval for partial privatization was granted in 2024, with the state retaining its interest but management to be potentially handed to an investor.

FX Market Inflows vs BPNG Intervention

The rise in BPNG interventions and FX inflows from exporters, driven by stronger commodity prices in Q4-24, significantly supported the market.

Total FX Market Inflows vs BPNG FX Intervention (Kb)



Q4-24 FX Market Inflow

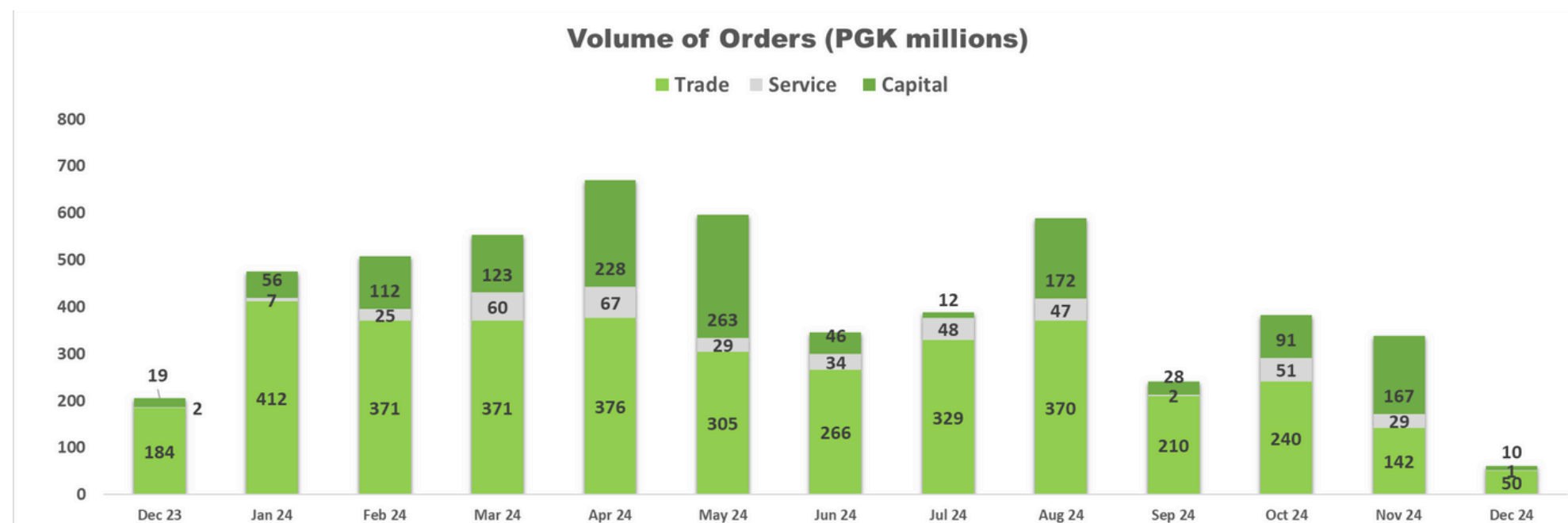
↑ **K7.64b**
21% against Q3-24

Q4-24 BPNG FX Intervention

↑ **K1.50b**
23.3% against Q3-24

In Q4, FX market turnover increased by 2.6% to K15.3 billion, driven by higher export inflows from gold, palm oil, cocoa, and coffee, as well as stable copper prices. Despite strong export FX inflows in December, market volatility was mitigated through K1.5 billion in weekly BPNG interventions, representing 19.6% of total FX inflows for the quarter, a decrease from 25.6% in the previous year.

Volume of Outstanding Orders (Km)

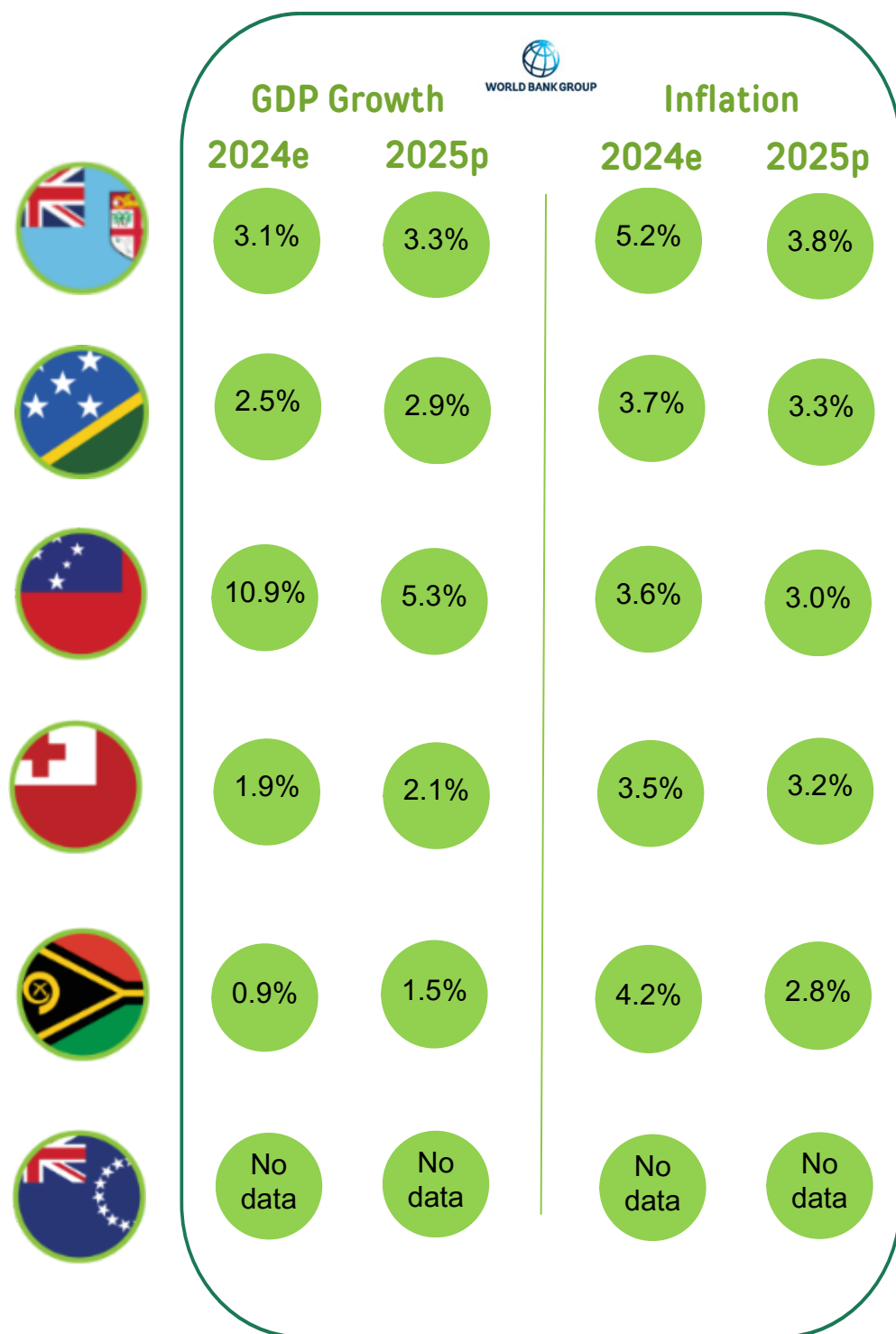


BSP Customer Outstanding FX Orders reached a peak of K595 million in October. However, a surge in December FX inflows from exporters led to a reduction in BSP Customer Outstanding FX Orders to K61 million by year-end. As a result, FX order execution times shortened to just a few days by the end of the year. Looking ahead, we anticipate that FX order execution times will vary between 2 and 6 weeks in the first quarter of 2025.

Source: BSP Treasury and Markets

Pacific Markets Economic Update

GDP Growth



Commentary

Fiji

The Reserve Bank of Fiji (RBF) revised its 2024 GDP growth forecast to 3.8%, up from 2.8% in June, due to higher-than-expected visitor arrivals and increased domestic demand. RBF also raised its 2025 growth projection from 3.0% to 3.4%, with 2026 and 2027 expected to follow pre-pandemic growth trends. Annual headline inflation slowed to 1.3% in December 2024, compared to 5.1% in December 2023. However, slow growth in Fiji's key trading partners and geopolitical uncertainties, including commodity price fluctuations, remain risks to RBF's estimates.

Solomon Islands

The World Bank estimates the Solomon Islands' GDP growth for 2024 at 2.5%, driven by election-related spending and increased government investment in public infrastructure. The domestic economy was supported by strong performance in key traded commodities. Headline inflation was 3.8% at the start of Q4-2024, slightly lower than the 4.0% recorded at the end of Q3-2024.

Samoa

Samoa's GDP growth rebounded to 9.4% in 2024 after three years of contraction during the COVID-19 pandemic, largely due to hosting the CHOGM in October 2024. Growth estimates for 2025 are 5.5%. The Central Bank of Samoa (CBS) will continue its current monetary policy, aimed at reducing excess liquidity and raising interest rates without tightening overall policy. Headline inflation decreased to 2.8% in October, down from 3.6% at the start of Q3-2024.

Tonga

Tonga's GDP growth for 2024 is estimated at 1.8%, with stronger growth projected for 2025 at 2.4%. This acceleration is expected to result from expansionary fiscal and monetary policies, supported by robust domestic demand and significant public investment projects. The National Reserve Bank of Tonga set the reference rate at 5%, with expectations that it will remain below this level.

Vanuatu

The liquidation of Air Vanuatu affected tourism and related sectors. At the start of Q4-2024, growth was estimated at 0.9%, with hopes for gradual recovery in 2025. However, this projection was made prior to the earthquakes near Vanuatu's capital. Inflation is expected to moderate to 4.2% by the end of Q4-2024, with further deceleration to 2.8% in 2025.

Cook Islands

According to the ADB's September 2024 ADO report, the Cook Islands' GDP is forecast to grow by 15% in 2024, supported by strong visitor arrivals amid global uncertainties. Inflation at the start of Q4-2024 was reported at 2.64%, with an estimated increase to 4.5% by year-end.

Source: World Bank - Pacific Economic Update, ADB ADO - September 2024, BSPs Pacific Markets' Central Banks

Contacts

Group General Manager | Treasury & Markets

Rohan George

+675 305 6520

Rgeorge@bsp.com.pg

Head of Markets Sales Pacific | Markets

Leighton Crisp

+675 305 6561

LCrisp@bsp.com.pg

Head of Group Treasury | Treasury

Nayef Khoury

+675 3056512

NKhoury@bsp.com.pg

Interbank Dealer | Treasury

Hava Kasa

+675 305 6523

HKasa@bsp.com.pg

Senior Markets Sales Manager | Markets

Egau Mulina

+675 305-6516

Emulina@bsp.com.pg

Senior Markets Sales Manager | Markets

Rosetta Marum

+675 305-6513

Rmarum@bsp.com.pg

Liquidity Manager | Treasury

Lance Kila

+675 305-6514

Lkila2@bsp.com.pg

Liquidity Manager | Treasury

Ron Saulep

+675 305-6532

RSaulep@bsp.com.pg

Senior Markets Sales Manager | Markets

Perryson Miori

+675 305-6749

PMiori@bsp.com.pg

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