



**Bank of Papua New Guinea**

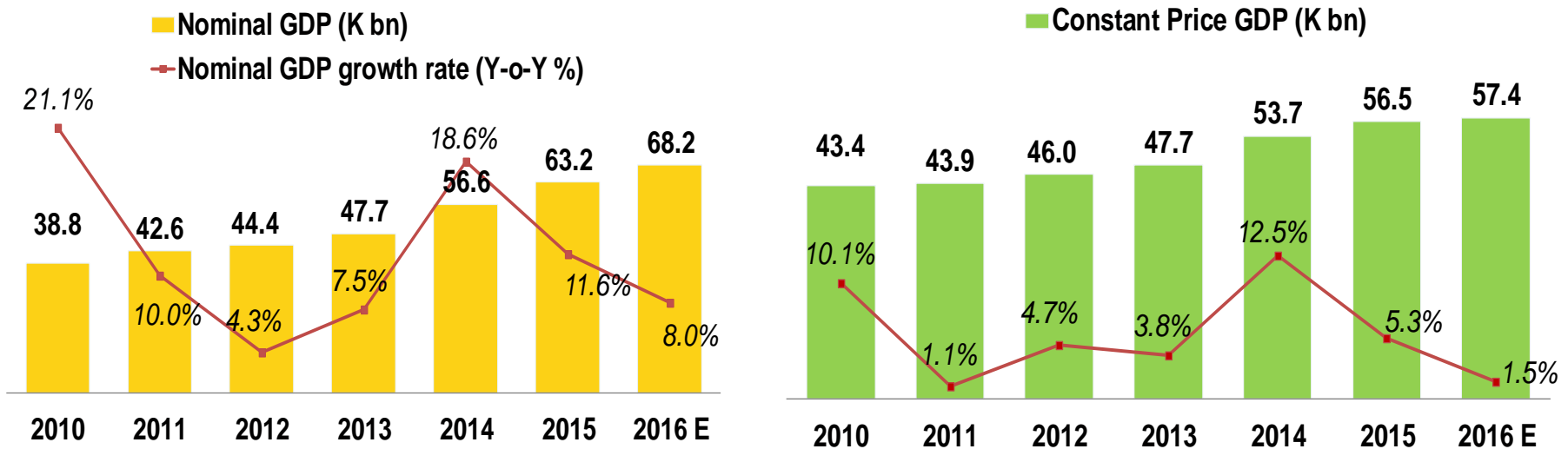
***Presentation at the  
PNGHRI National Conference***

**Outlook of PNG Economy**

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**16 May 2017  
Port Moresby**

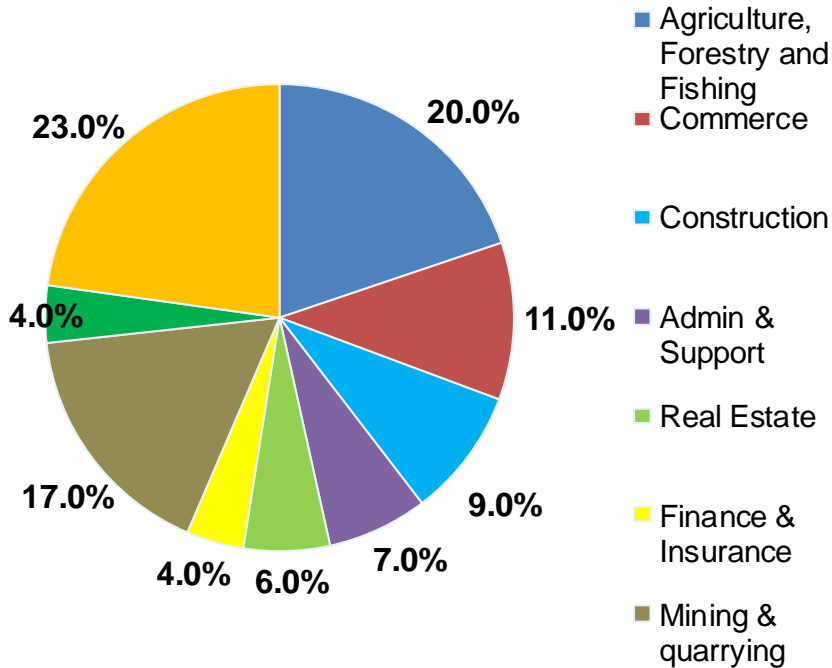
# Gross Domestic Product (GDP)



Source: 2010-2014, NSO; 2015-2016 Central Bank estimates

- 2016, 15<sup>th</sup> consecutive year of broad-based economic growth
- GDP growth rates amongst the highest in the world
- 2010-2016, nominal GDP grew from K38.8 billion to K68.2 billion, 76% or on average, 11.6% per annum
- GDP (in constant 2013 prices) over the same period grew from K43.4 billion to K57.4 billion, by 32% or on average 5.6% per annum

# Diversified economic structure

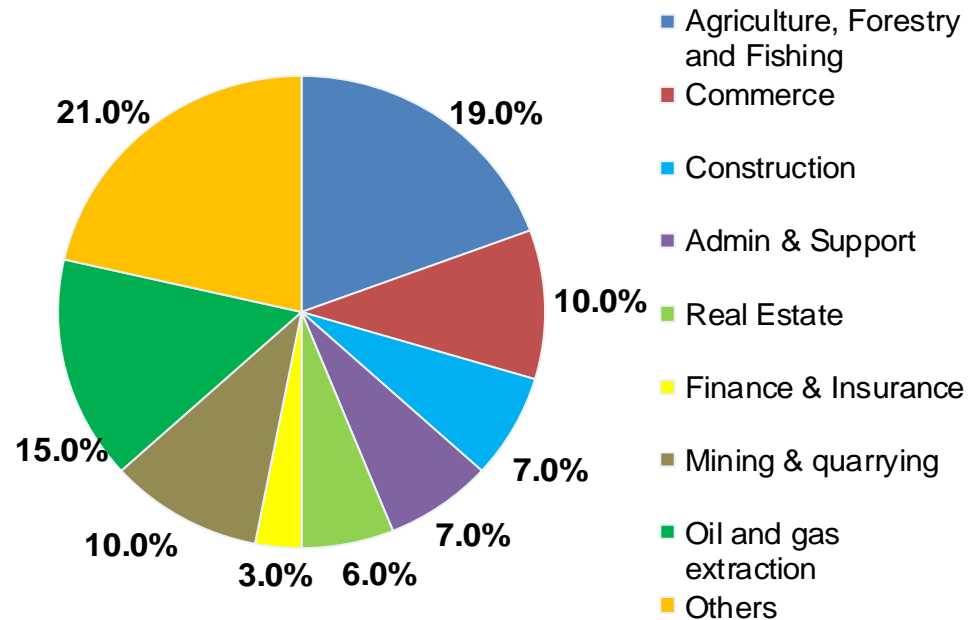


## In 2010

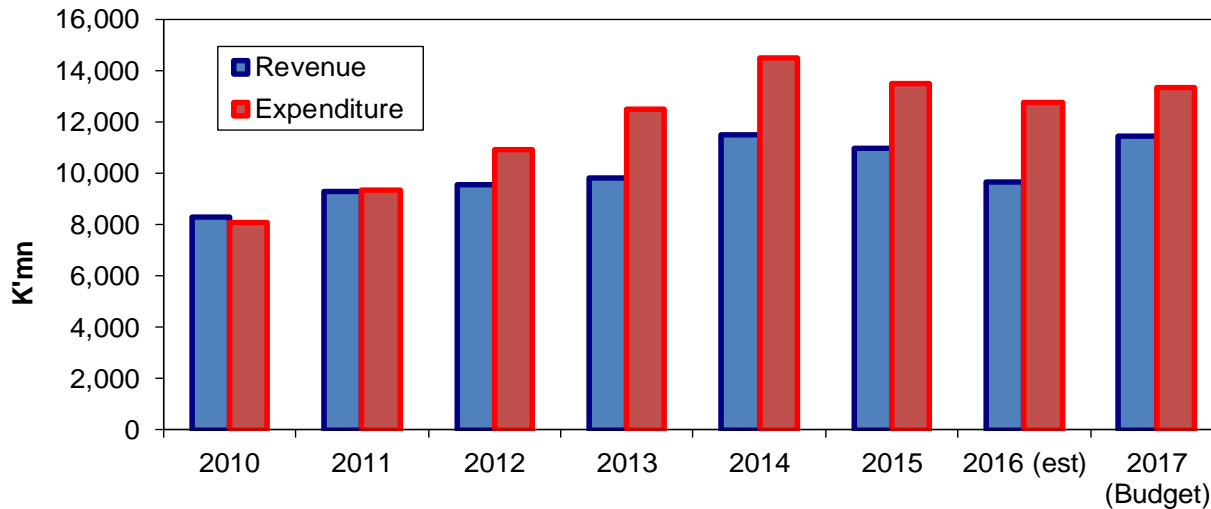
- Dominant sectors are: agriculture/forestry/fisheries, mining, commerce and construction;
- Others include transport, manufacturing, education, health

## By 2016

- Second full year of LNG production and export - mining, oil & gas sector's share increased to 25%
- Other traditional sectors – agriculture/forestry/fisheries, commerce and construction remain dominant



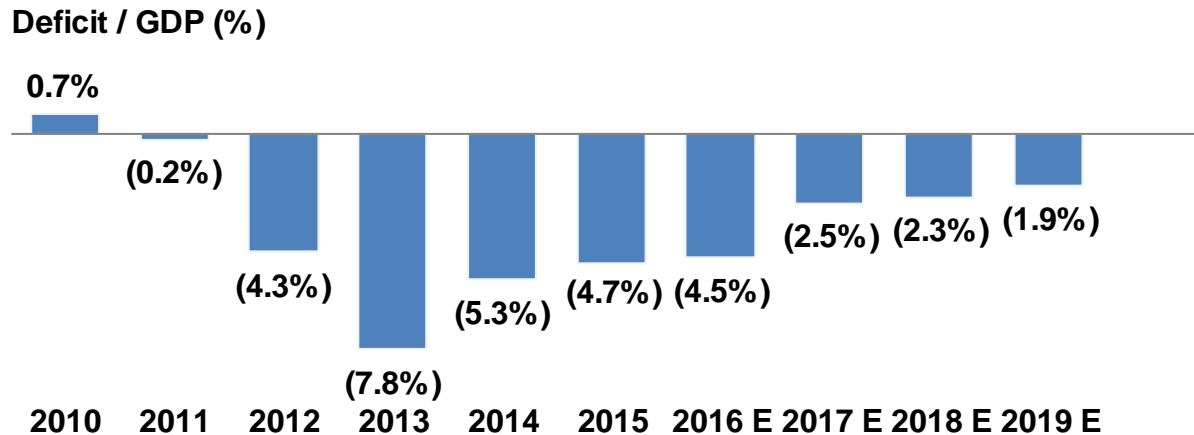
## Fiscal Operations of the Government (K'mn)



- Prudent fiscal management with Supplementary Budgets to adjust for low revenue as a result of low international commodity prices, including oil
- Expenditure on key priority areas of health, education, infrastructure, law and order not affected

### Fiscal deficit

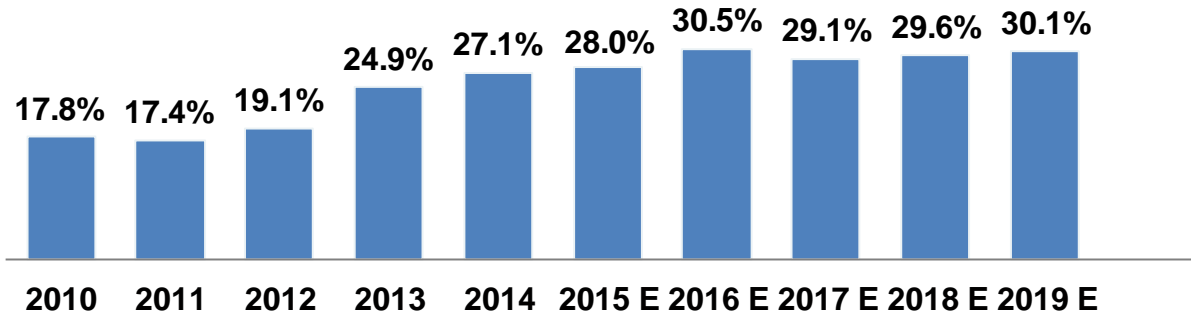
## Fiscal Deficit will decline over time



- Major adjustment to fiscal operations was decided on in 2012 and 2014 with the development of the LNG project, and commencement of production in 2014.
- As a result of sharp decline in oil prices, adjustment was immediately undertaken

# Debt will be lower than debt limit over time

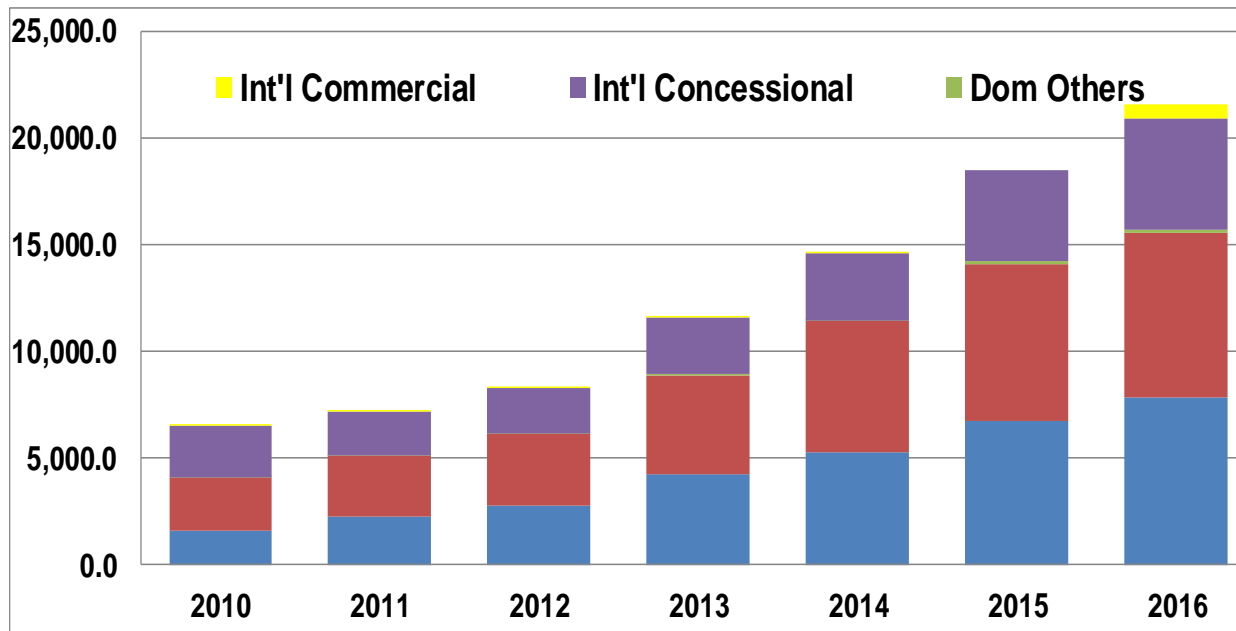
Debt / GDP (%)



## Debt ratio

- Debt sustainability strategy
- Debt-to-GDP ratio maintained within the legislated ratio of 30%

## Government Debt (K'mn)



- Negligible level of external commercial debt
- Most debt is in domestic Gov't securities (Treasury bills and bonds)
- External debt is mainly concessional with low cost funding, from World Bank, ADB and other

# Debt Service

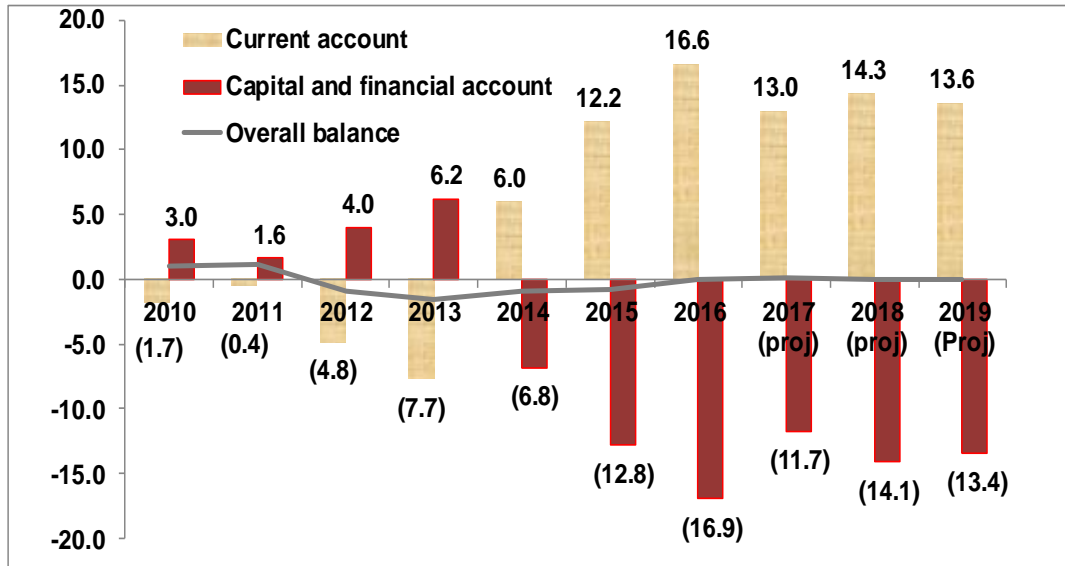
<u>Indicator</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
1) Nominal GDP (K'mn)	38,752	42,642	44,372	47,721	56,621	63,189	68,244
2) Domestic Debt (K'mn)	4,145.2	5,121.1	6,118.2	8,845.2	11,827.9	13,863.6	15,321.7
3) External Debt (K'mn)	2,751.5	2,290.1	2,367.4	3,032.5	3,537.2	3,852.1	5,494.5
4) Total Debt (K'mn)	6,896.7	7,411.2	8,485.6	11,877.7	15,365.1	17,715.6	20,816.3
5) Total Debt service (K'mn)	533.3	584.5	593.1	652.7	1,139.4	1,245.0	1,350.2
6) Total Interest service (external + Domestic) K'mn	353.1	416.3	433.4	484.8	933.1	1,077.4	1,151.7
7) External public debt service (K'mn)	228	232	201	210	188.3	185.0	198.5
8) Total Govt Revenue (K'mn)	8,278.9	9,304.9	9,566	9,832.7	11,497.6	10,963.5	9,662.9

<u>Ratios</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
1) Total domestic debt as % GDP	10.7	12.0	13.8	18.6	20.9	21.9	22.5
2) Total external debt as % GDP	7.1	5.4	5.3	6.4	6.2	6.1	8.0
3) Total debt as % GDP	17.8	17.4	19.1	24.9	27.1	28.0	30.5
4) Debt service as % of Government revenue	6.4	6.3	6.2	6.6	9.9	11.5	13.7
5) Interest service as % GDP	0.9	1.0	1.0	1.0	1.6	1.7	1.7
6) Interest service as % of Government revenue	4.3	4.5	4.5	4.9	8.1	9.8	11.7
7) External debt service as % GDP	0.6	0.5	0.5	0.4	0.5	0.4	0.4

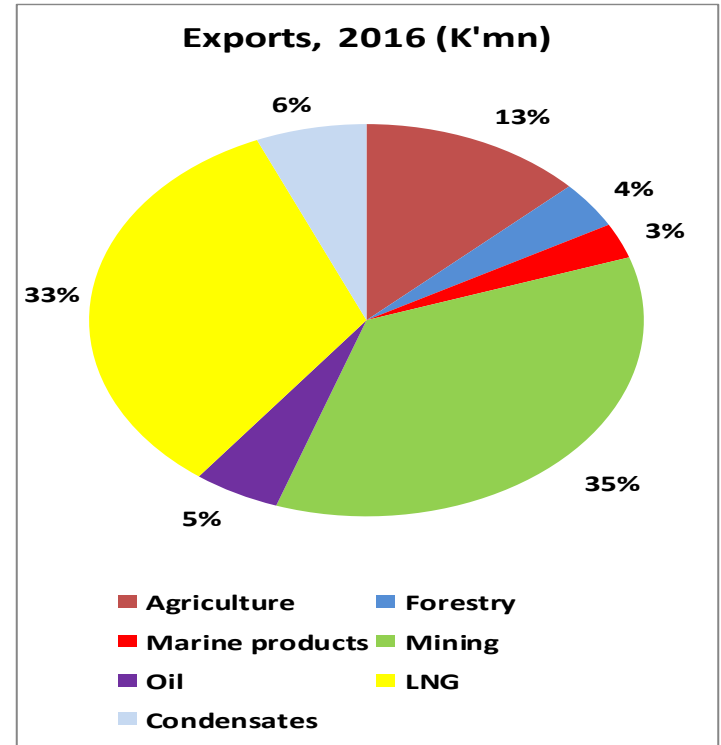
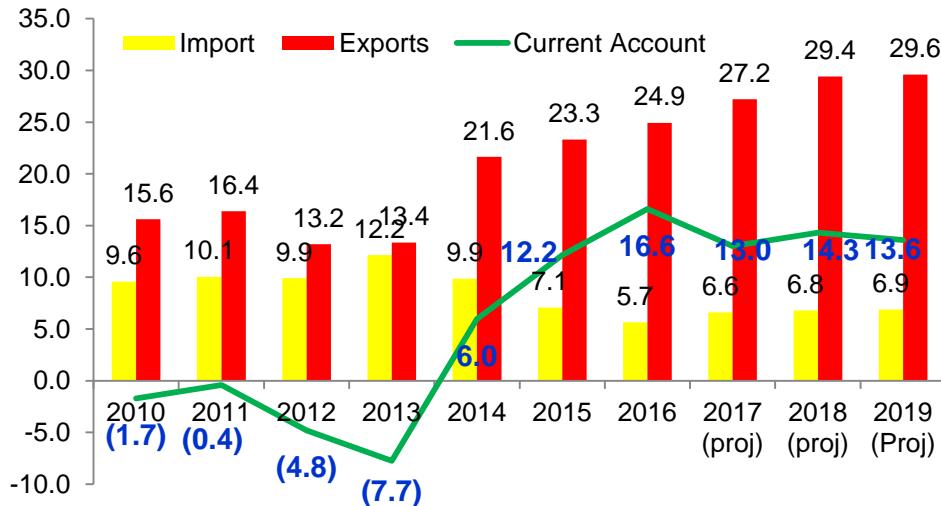
- **Sustainable debt level. External debt is very low**
- **Debt service is priority and PNG has never been late in repayments**
- **Low interest payment burden, both as a percentage of Gov't revenue and GDP**

# Balance of Payments

(In K' billion)

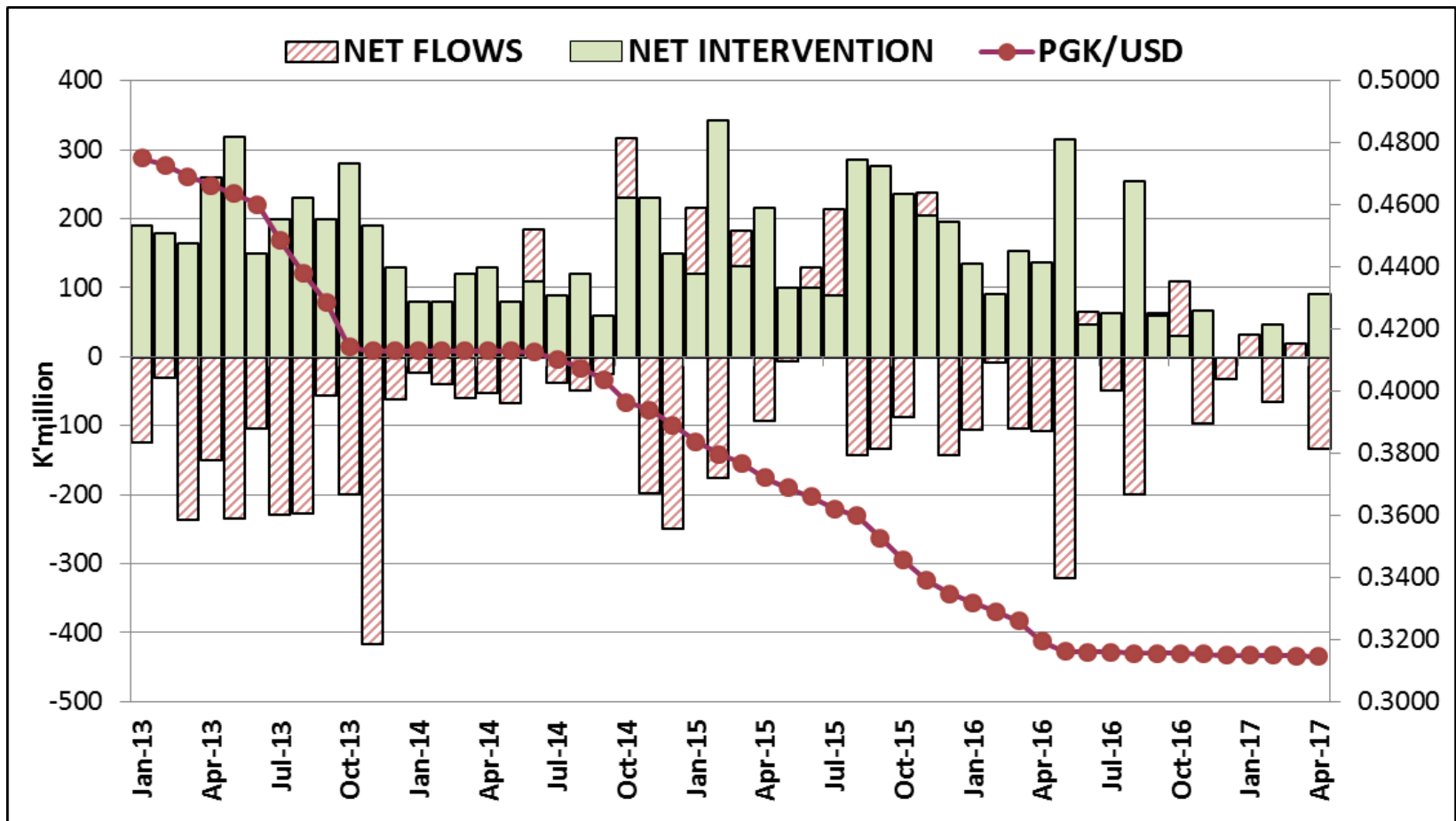


(In K' billion)



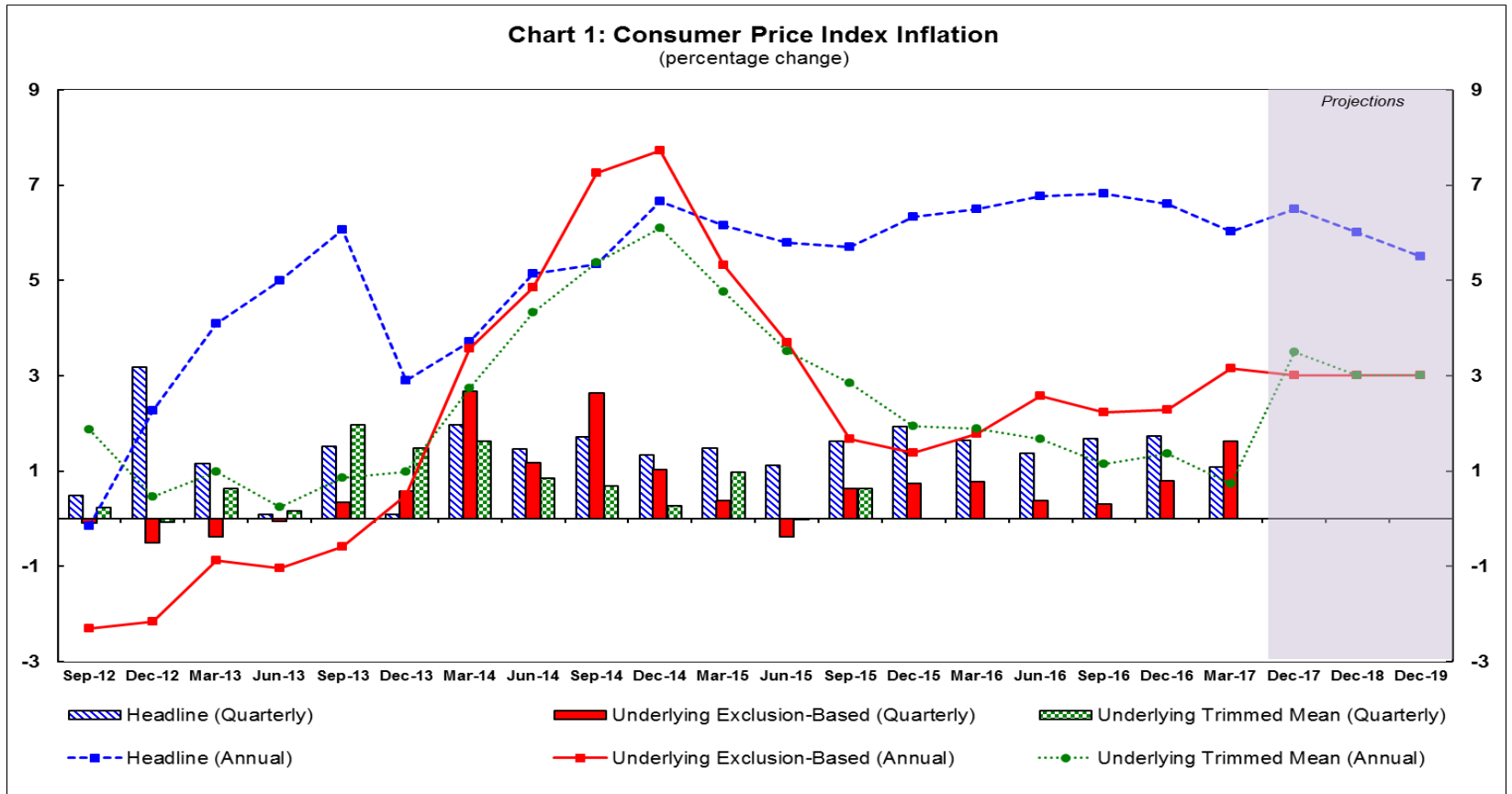
- Turn-around from deficit to surplus in the current account since 2014 mainly due to LNG exports. The surplus are kept offshore to pay off project loans
- Tax income will be realised following the decline in accelerated depreciation allowances around 2020-2021 resulting in Balance of Payments surpluses and foreign currency inflows

# Domestic Foreign Exchange Market

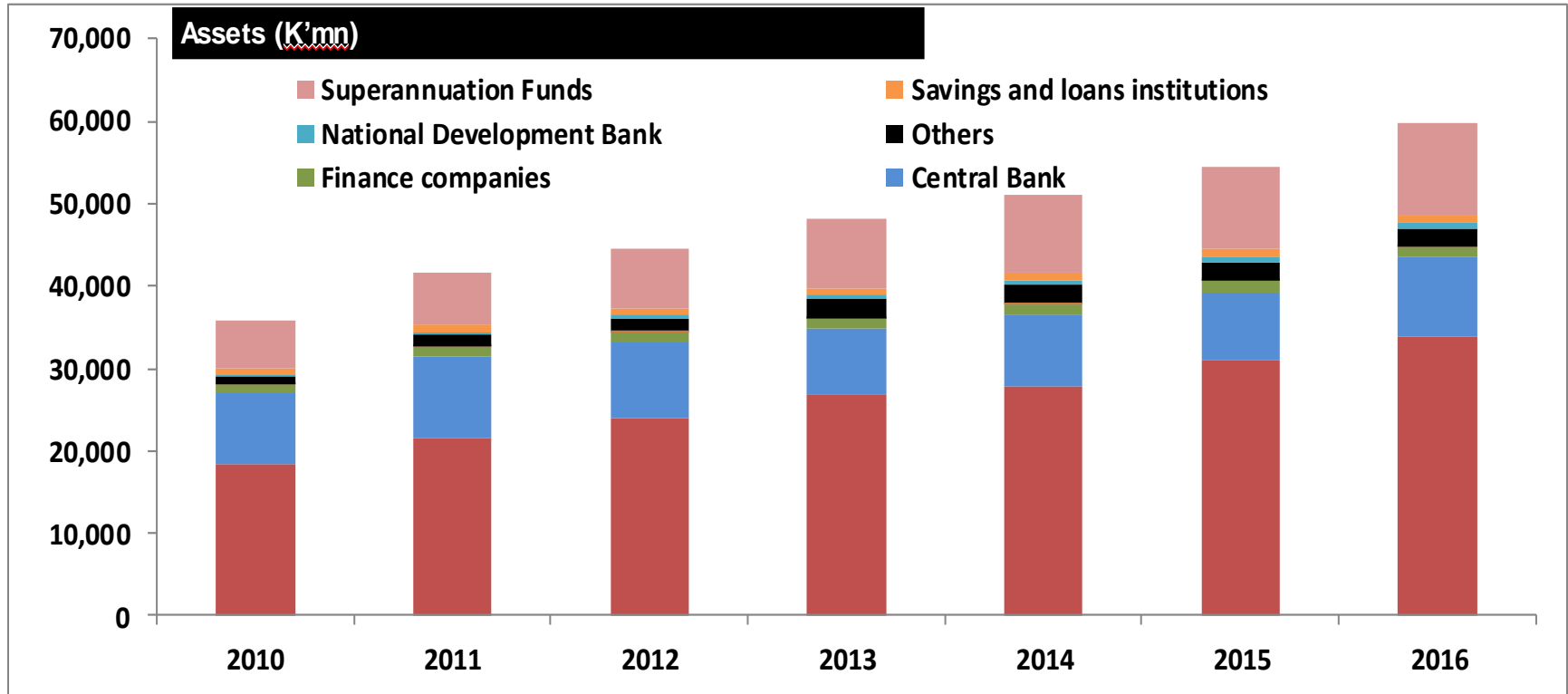




# Inflation



# Financial system



- **Very stable financial system with high capital base, well above the 12% capital requirement by the Central Bank**
- **Overall total financial assets are very low compared to developed countries. Financial institutions (banks) are not involved in development funding**
- **Low non-performing loans of the financial system**
- **Financial system is highly profitable**

# Other Macroeconomic Indicators

	2010	2011	2012	2013	2014	2015	2016 (p)
	(Percentage Change)						
Inflation, headline	7.2	6.9	1.6	4.7	6.6	6.4	6.6
Broad Money	10.2	17.3	10.9	6.5	1.2	8.0	10.9
Private Sector Credit	18.1	7.9	12	17.3	2.2	3.4	7.2
	(In Percent)						
Interest Rate, 182 Day Treasury Bill Rate	3.32	3.87	1.95	2.52	4.67	4.65	4.72
	(In K'million)						
Gross official International Reserves	8,169.8	9,266.4	8,415.9	6,841.8	5,980.3	5,226.9	5,257.5
	(In Months)						
Import Cover							
Months of goods and service imports	5.7	6.5	5.7	3.9	4.6	5.8	7.3
Exchange Rate, Kina/US\$	0.368	0.424	0.48	0.4469	0.4067	0.3595	0.3192

**Note: (p) is provisional**

# What's the worth of macroeconomic indicators

- Macroeconomic stability is necessary for business/economic activities, within which HR plays an important role.
- Important for sovereign rating of the country/economy- which in turn is important for PNG's business relationship with the world, and access to global financial market finance

# What's the worth of macroeconomic indicators

- When micro socio-economic indicators are poor. PNG HDI 154/188 countries (2015).
- Service delivery mode needs to improve.
- Good Governance issues.
- Situation now not as bad as in the mid & late 1990s.

# Thought: Which would you prefer?

- High economic growth with no/little improvement in socioeconomic indicators (PNG), or
- High economic growth with corresponding improvement in social indicators
- Low economic growth with good/reasonable socioeconomic conditions (Fiji HDI: 91/188)

# Thought: Our Biggest Problem may not be in economics?

- Is it in Attitude/Culture?

Thank you