PNG Update: survey of developments, 2014-15

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Structure

• Context and recent growth performance
  – Stephen Howes
• Macroeconomic and fiscal
  – Ani Rova
• Human development and structural reform
  – Win Nicholas
• Conclusion
  – Albert Prabhakar
Commodity prices have fallen since 2011

Growth in commodity prices 2000-2020
(2000=100)
LNG prices are also falling

Japanese LNG contract prices
(USD/bmmbtu)
Strong economic growth since 2005

GDP and GDP per capita
(2012 prices)
Growth in 2014 and 2015

- GDP growth 2015 estimates have shifted down over time:
  - 21% to 15% to 11%
- GDP growth 2014 estimates have shifted up over time
  - 6% to 8% to 13%
- This is due to LNG production being brought forward: 2-year growth unchanged.
ANZ Q1 2105 business survey

• Sales in Q1 2015 compared to
  – Q4 2014: 65% down; 21% up
  – Q1 2014: 55% down, 29% up
Employment growth is slow

Formal sector employment growth
(quarterly, year on year)
Little growth in agricultural commodity production

Agricultural commodity production
(volumes, 2001=100)
Tourist arrivals no longer increasing

Annual tourist arrivals (by plane) to PNG
The exchange rate

Kina vs $US: May 2010 to May 2015
Falling foreign exchange reserves

Foreign Exchange Reserves
(millions $US)
Inflation has increased

Inflation 2012-2015
(quarterly, year on year)
The fiscal balance: from surplus to deficit

Fiscal surpluses and deficits in PNG (% GDP)
2000 to 2014
Expenditure has increased very rapidly in recent years

PNG government revenue and expenditure (% GDP)
This year’s fiscal problem

- Central Bank reports that by April 26,
  - Expenditure at 25% of the year’s target.
  - Revenue at 16% of the year’s target.
  - So deficit after 4 months is at K3,068 million above target for the whole year of K2,272 million.
Why such a difficult fiscal position?

- Rapidly increasing expenditure
- High borrowing (also off-budget e.g. Oil Search)
- Low LNG and other commodity prices.
- Poor revenue performance from other resource projects.
The revenue and expenditure outlook

PNG government revenue and expenditure (% GDP) 2014 actuals, 2015 budget, and 2016-18 forward estimates

Revenue and Expenses from 2014 to 2018, showing a decline in revenue and a slight decrease in expenses.
Government debt is now on the increase

Debt/GDP ratio

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Human development challenges

- Poverty: 40% in 2010
  - Unchanged from 1996
- Human Development Index: PNG 157th out of 187 (2013)
- Gender Inequality Index: PNG: 134th out of 148 (2012)
Free education and free health

• Free education
  – Government payments have reached schools
  – Enrolments have increased
  – Schools have been over-compensated for the abolition of fees

• Free health
  – Government payments reach fewer than half of the health clinics.
  – 83% of health clinics rely on user fees.
Gender equality: areas of progress

• More women in the workforce
  – proportion of female primary school teachers has increased from 27 to 55% over the last decade.

• New Family Protection Act

• Increasing number of programs
  – to make markets safer for women.
  – to support women who have been victims of domestic violence
Real exchange rate appreciation means the economy is becoming more costly

Real exchange rate (2005=100)
Funding for road rehabilitation and maintenance has increased, but is at risk

Funding required to address backlog and meet MTDP targets over a five-year period

Total funding available, DoW budget allocations and NRA committed funding
Conclusion

• Macro and fiscal reforms needed to reduce short-term risks
  – New fiscal strategy, including multi-year expenditure cuts
  – Exchange rate depreciation.

• Long-term challenges
  – Structural and public sector reform to boost spending effectiveness and SOE performance, and strengthen infrastructure.
Thank you