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PNG Update: survey of developments, 2014-15

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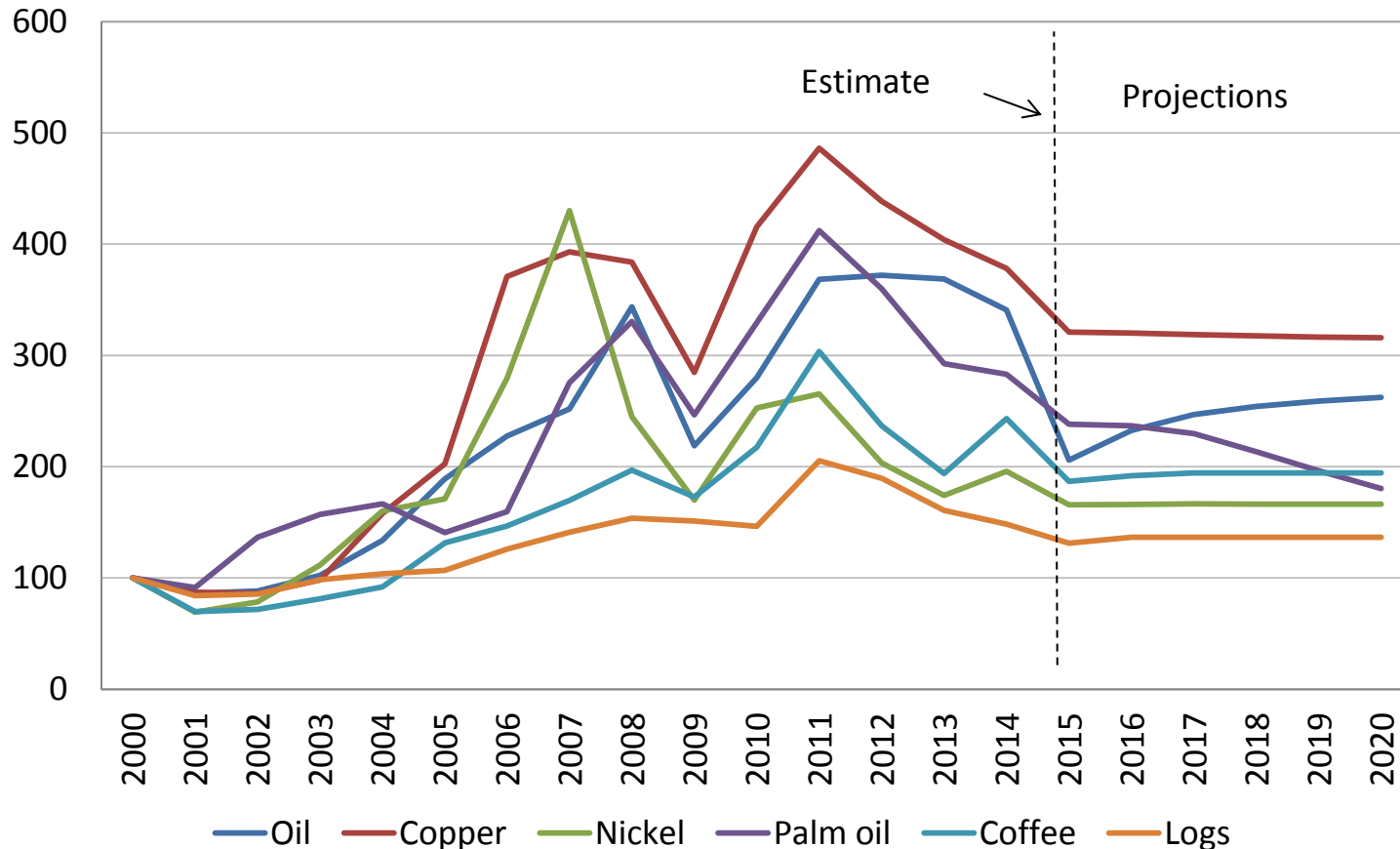
Structure



- Context and recent growth performance
 - Stephen Howes
- Macroeconomic and fiscal
 - Ani Rova
- Human development and structural reform
 - Win Nicholas
- Conclusion
 - Albert Prabhakar

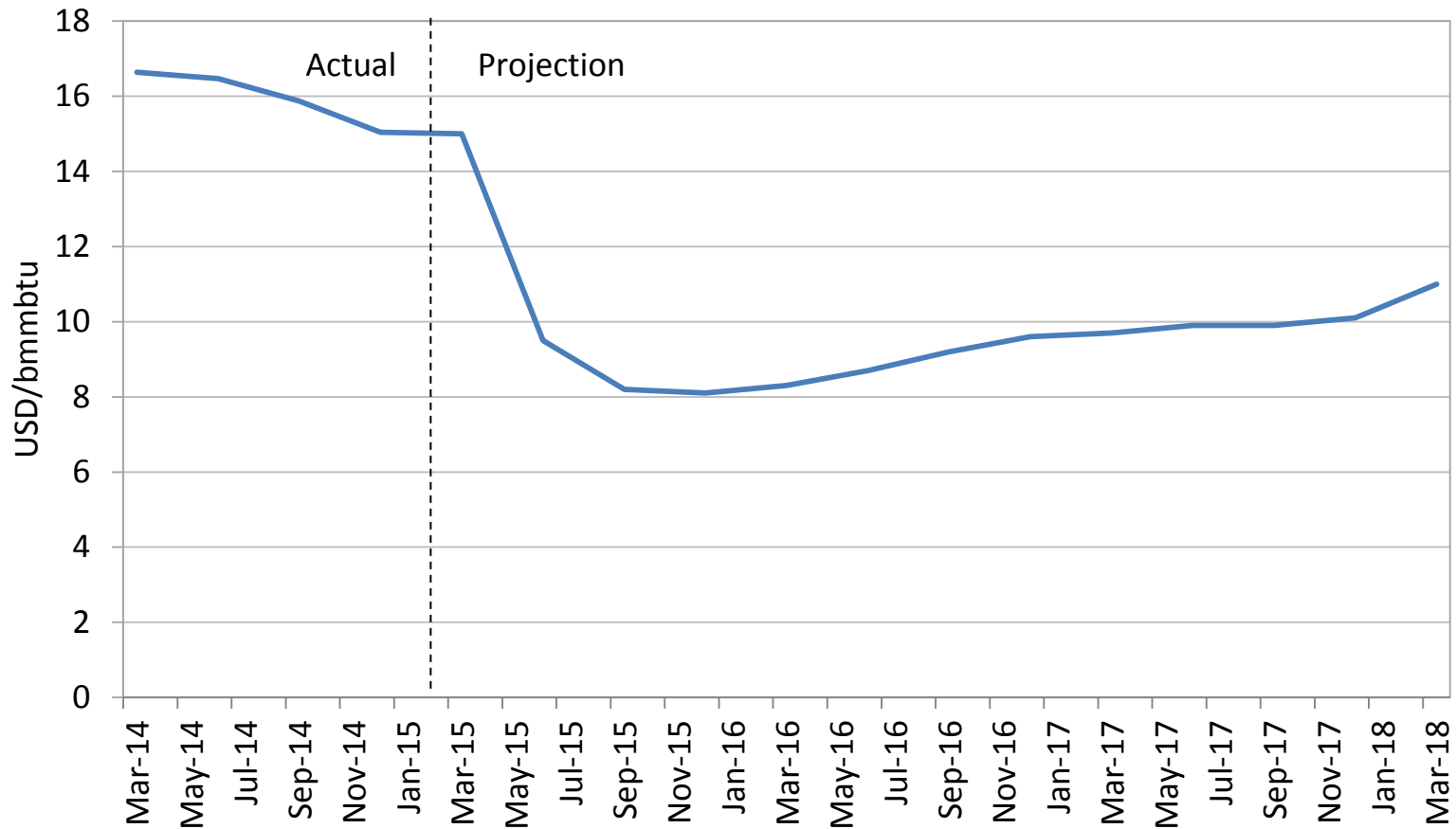
Commodity prices have fallen since 2011

Growth in commodity prices 2000-2020
(2000=100)



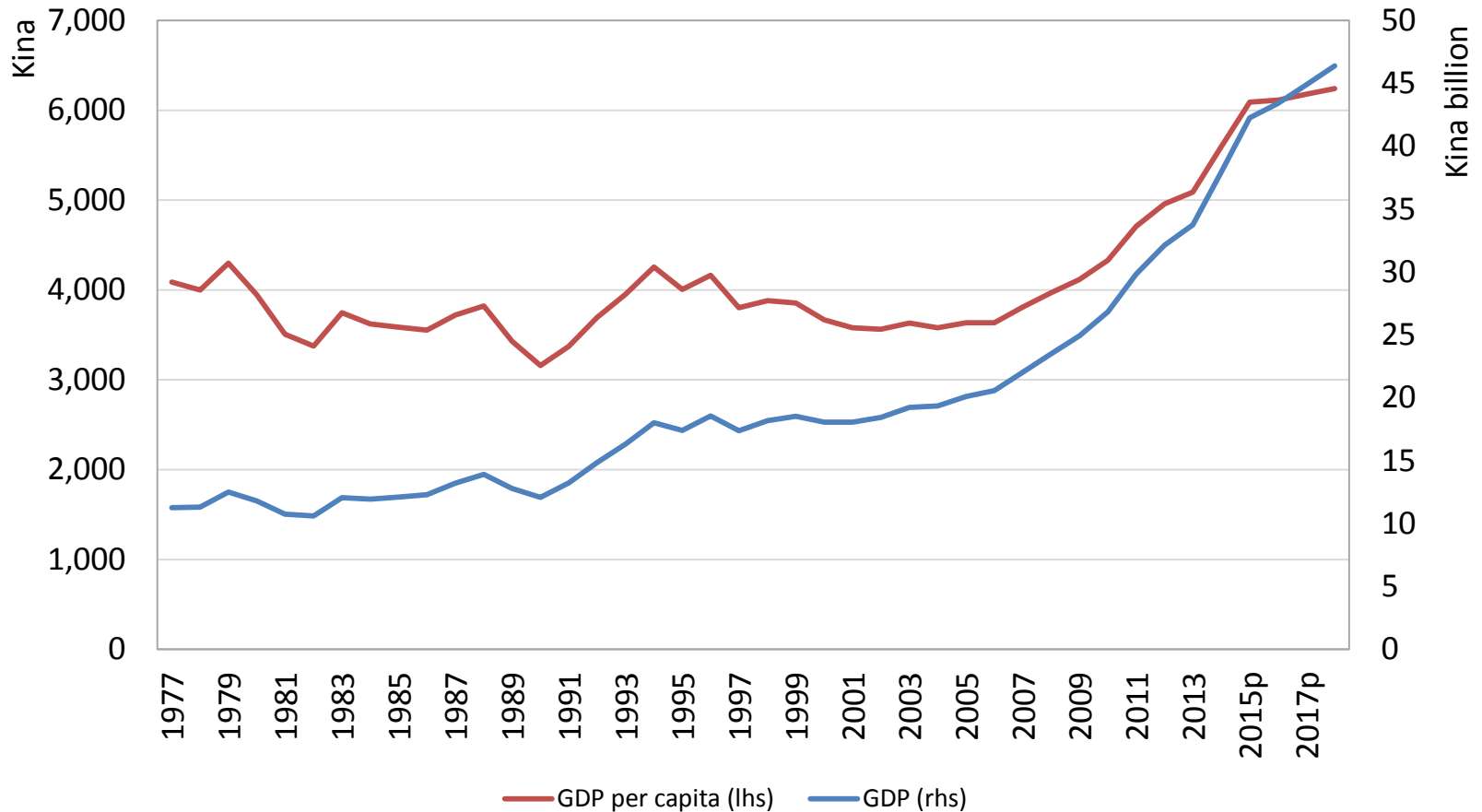
LNG prices are also falling

Japanese LNG contract prices
(USD/bmmbtu)



Strong economic growth since 2005

GDP and GDP per capita
(2012 prices)



Growth in 2014 and 2015

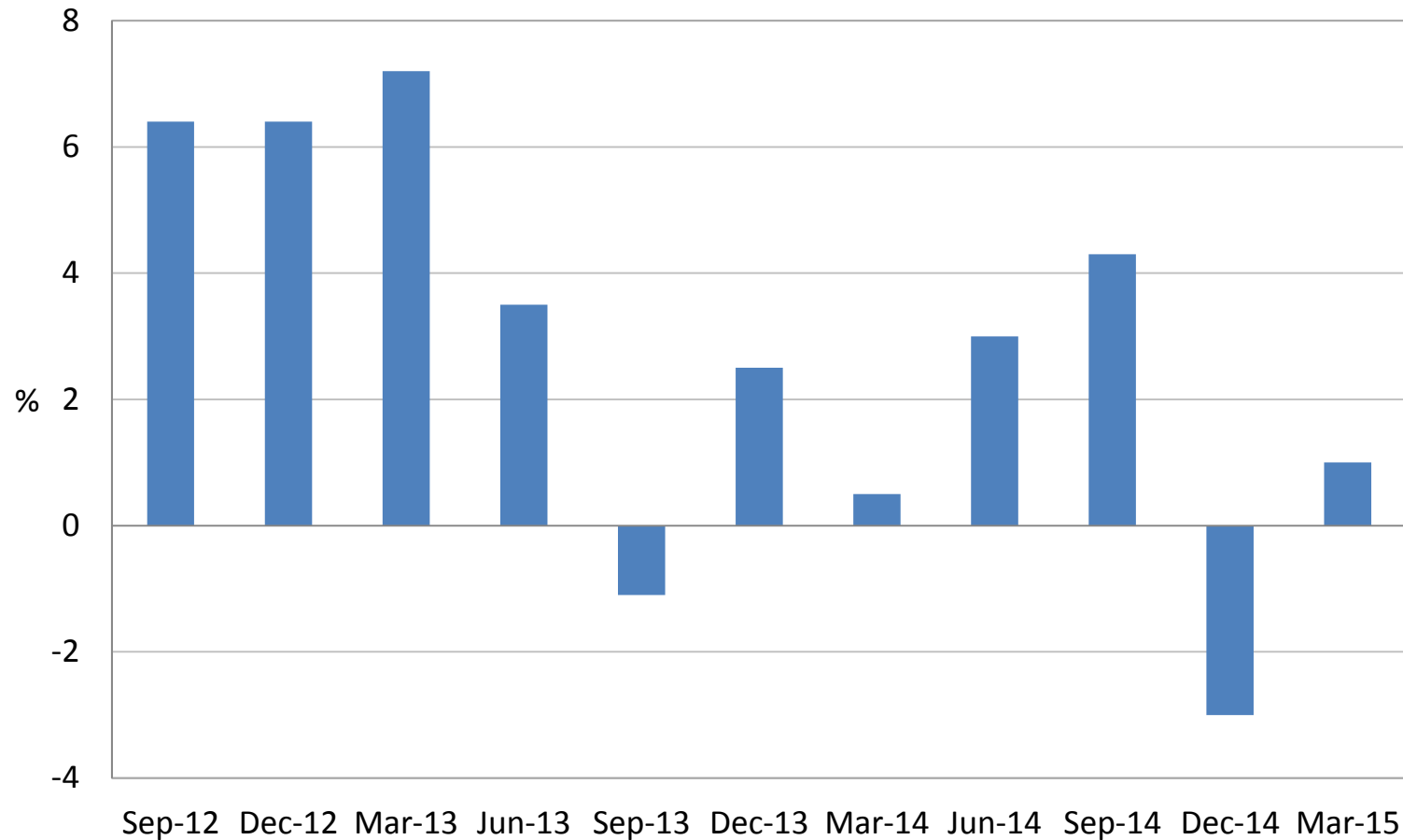
- GDP growth 2015 estimates have shifted down over time:
 - 21% to 15% to 11%
- GDP growth 2014 estimates have shifted up over time
 - 6% to 8% to 13%
- This is due to LNG production being brought forward: 2-year growth unchanged.

ANZ Q1 2105 business survey

- Sales in Q1 2015 compared to
 - Q4 2014: 65% down; 21% up
 - Q1 2014: 55% down, 29% up

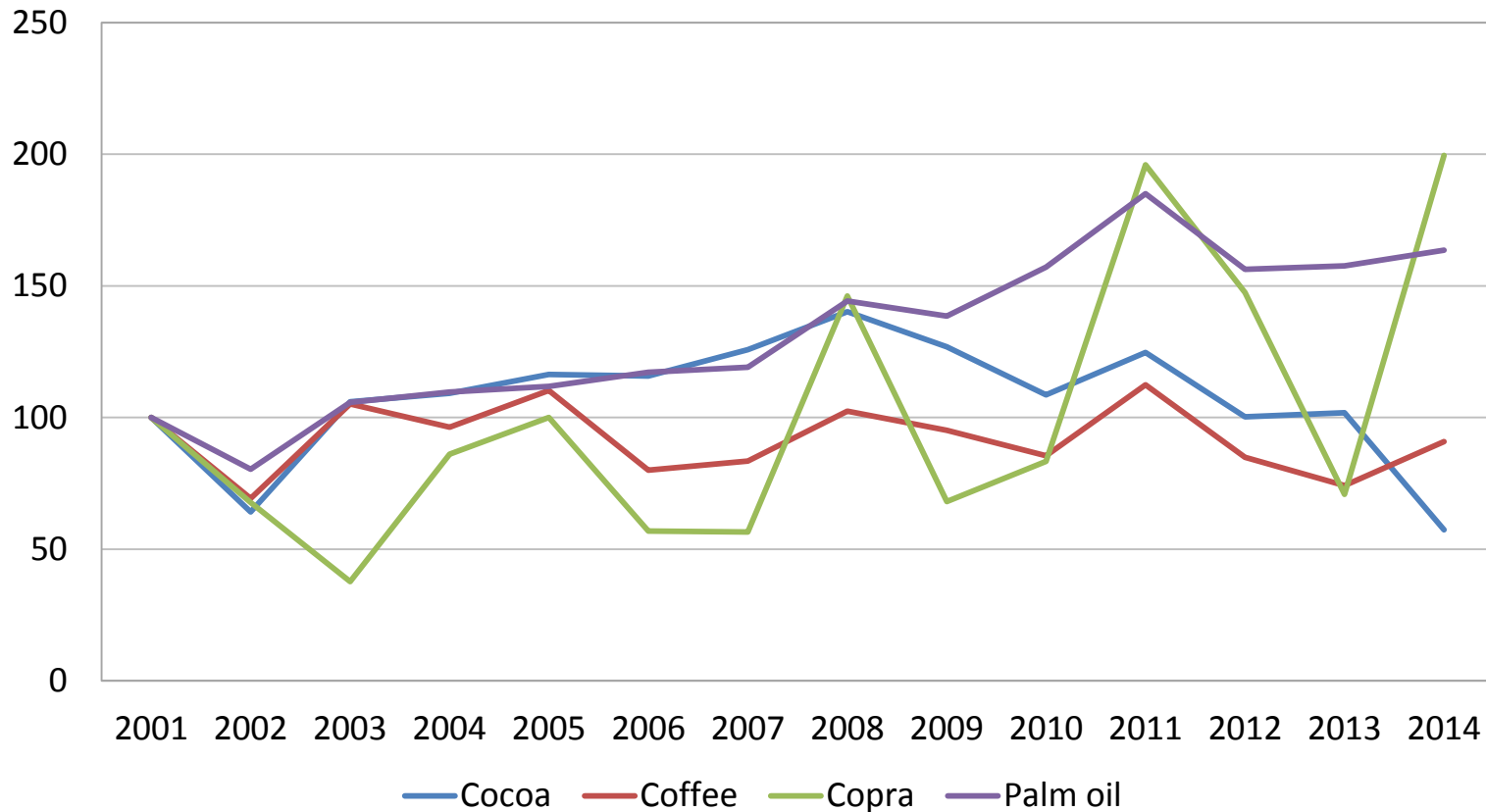
Employment growth is slow

Formal sector employment growth
(quarterly, year on year)



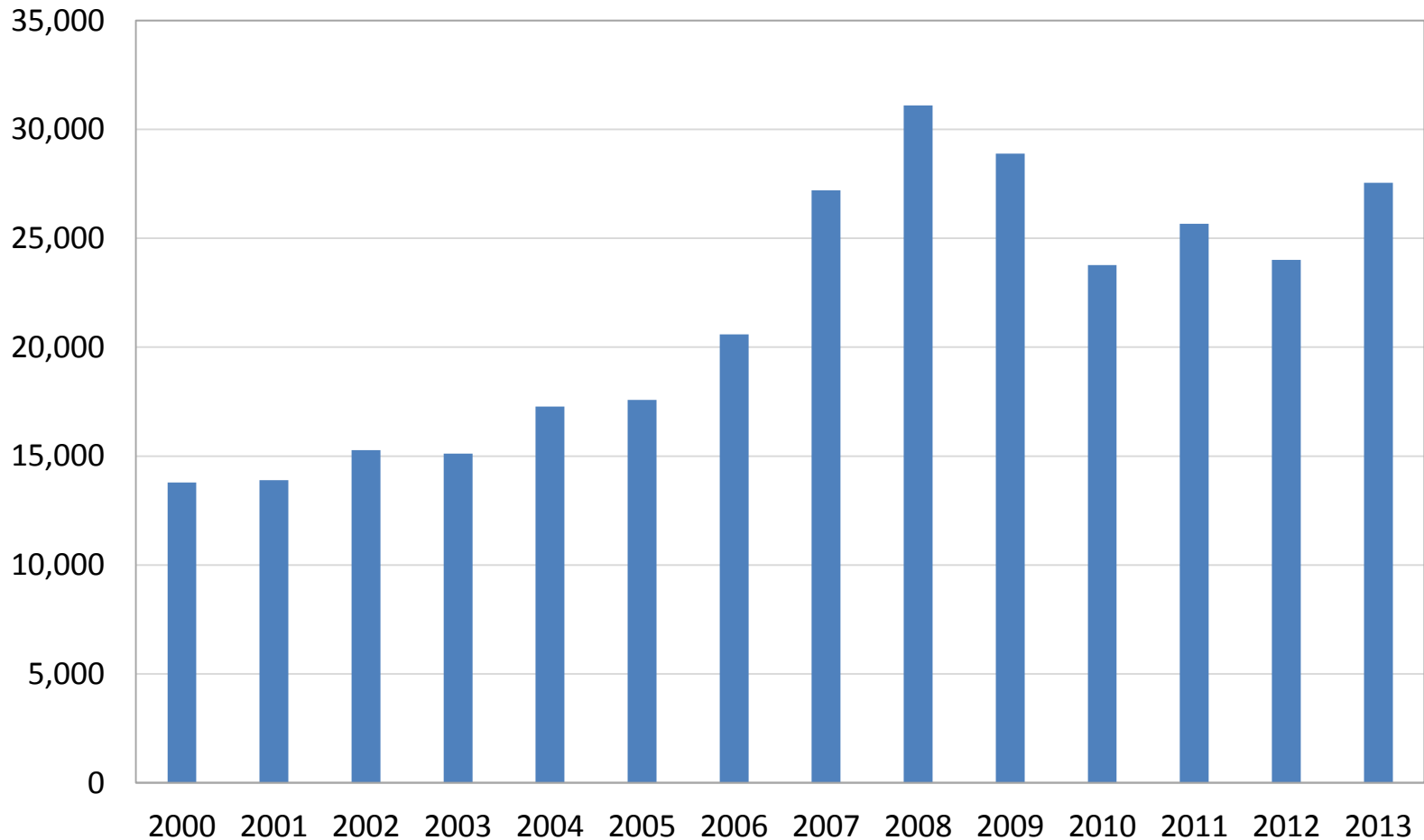
Little growth in agricultural commodity production

Agricultural commodity production
(volumes, 2001=100)



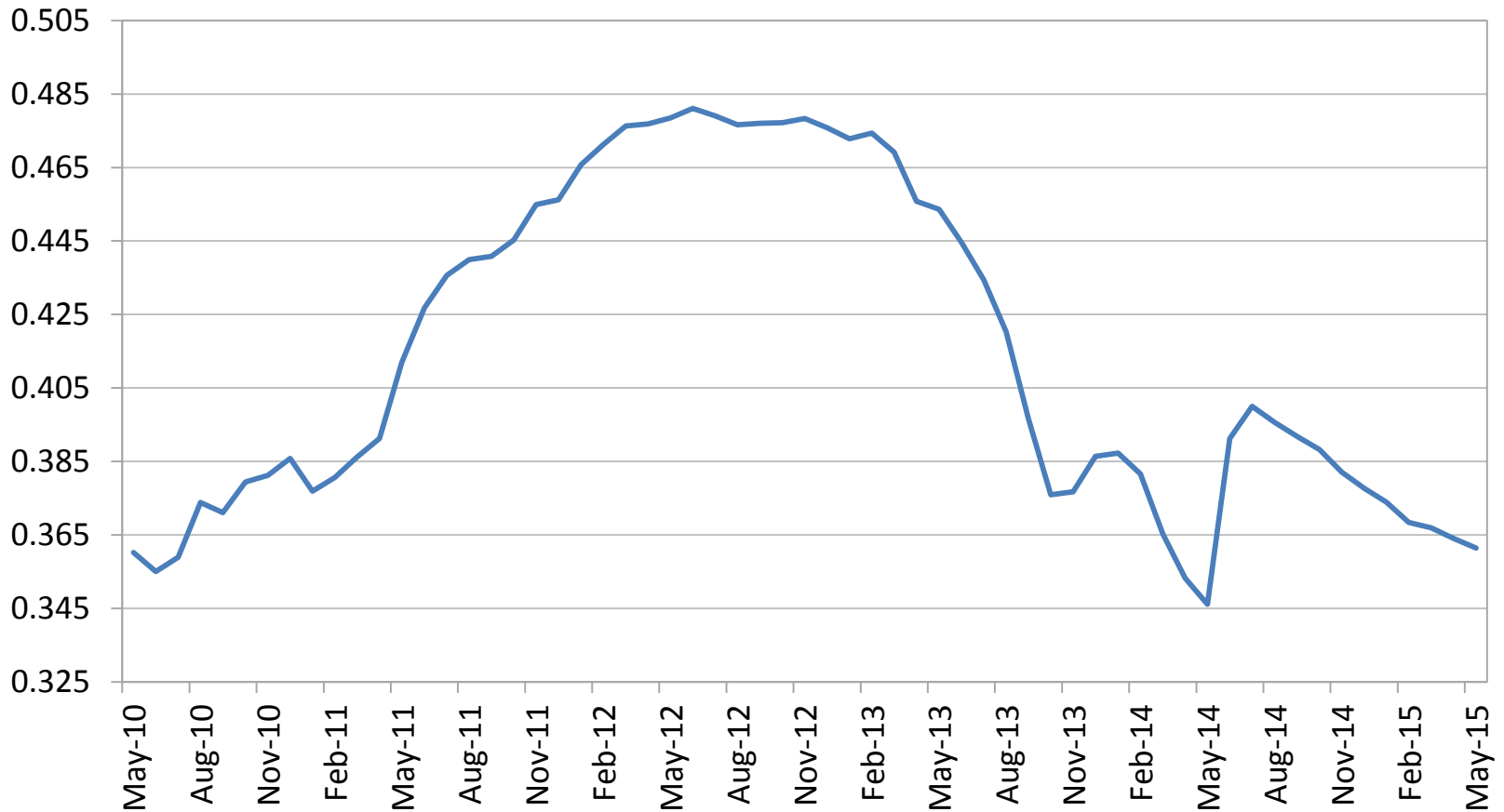
Tourist arrivals no longer increasing

Annual tourist arrivals (by plane) to PNG



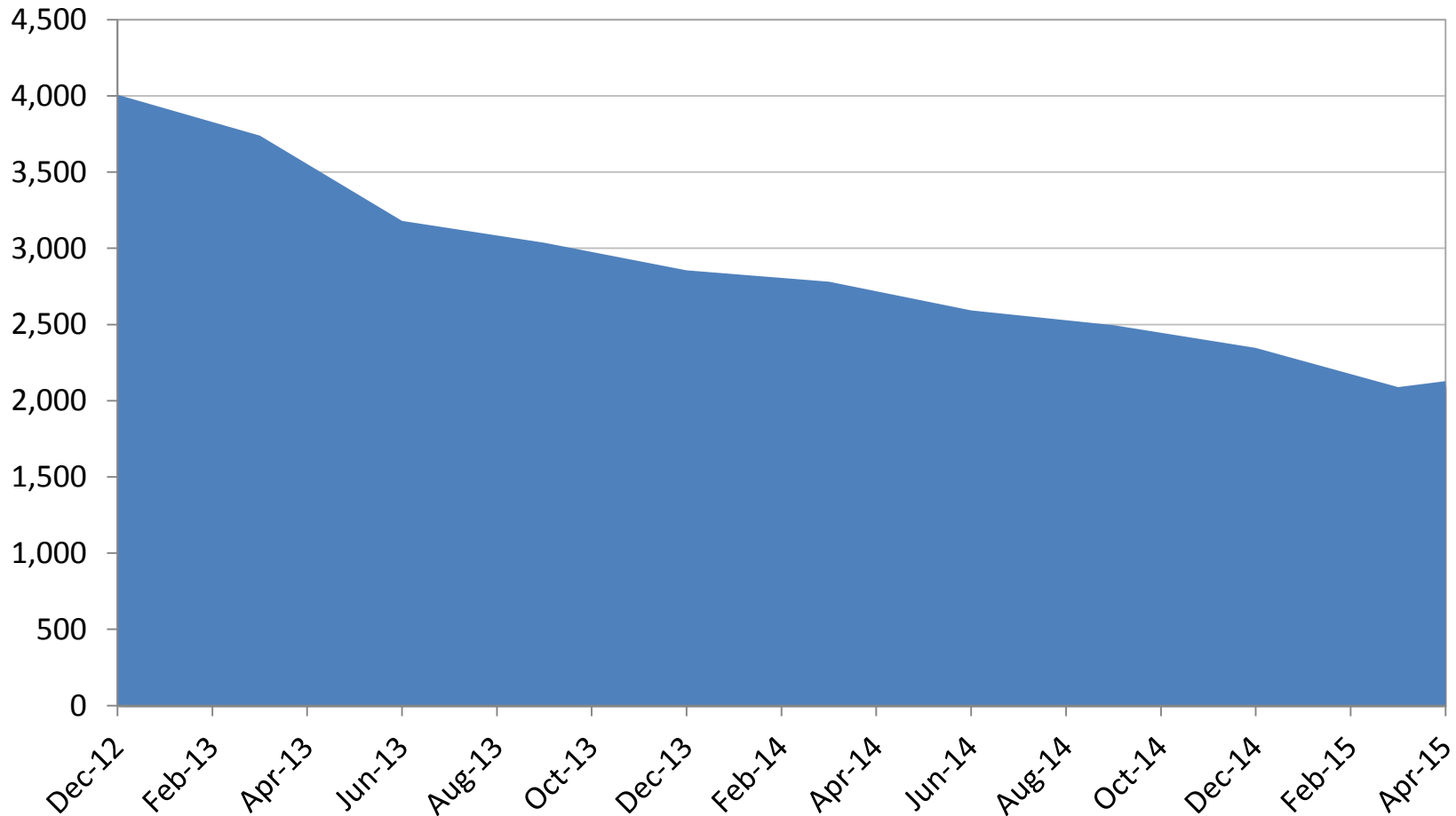
The exchange rate

Kina vs \$US: May 2010 to May 2015



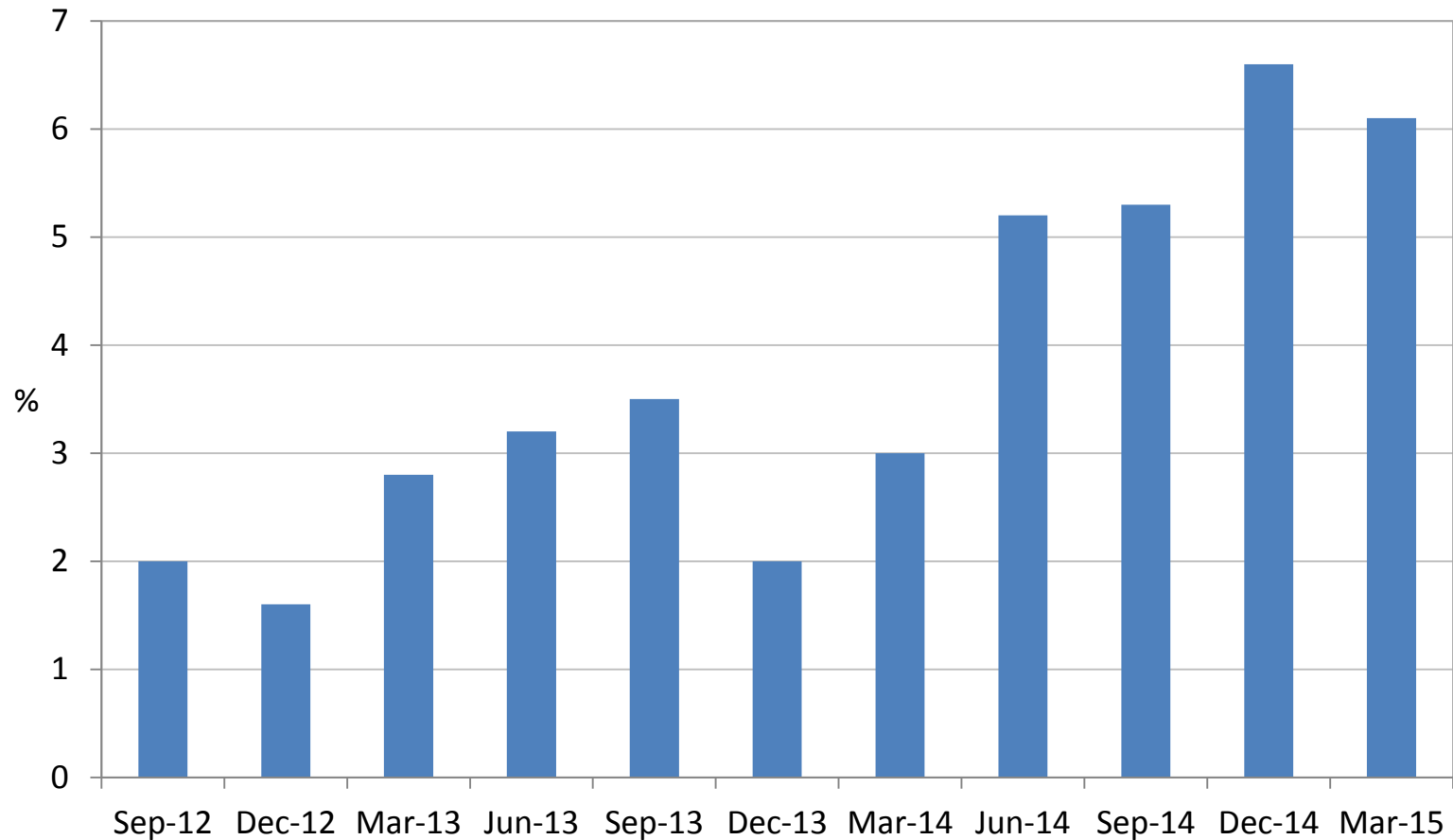
Falling foreign exchange reserves

Foreign Exchange Reserves
(millions \$US)



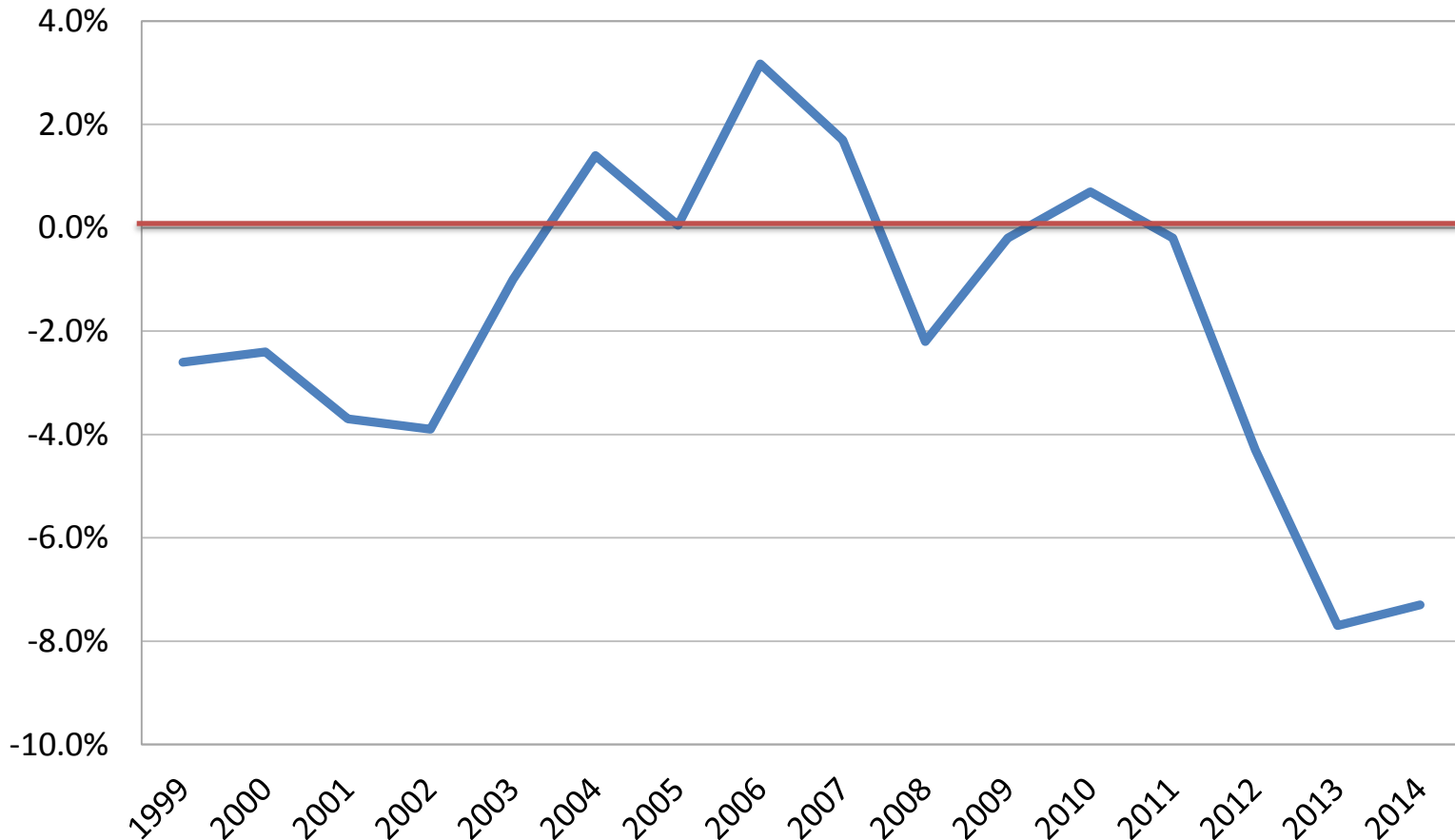
Inflation has increased

Inflation 2012-2015
(quarterly, year on year)



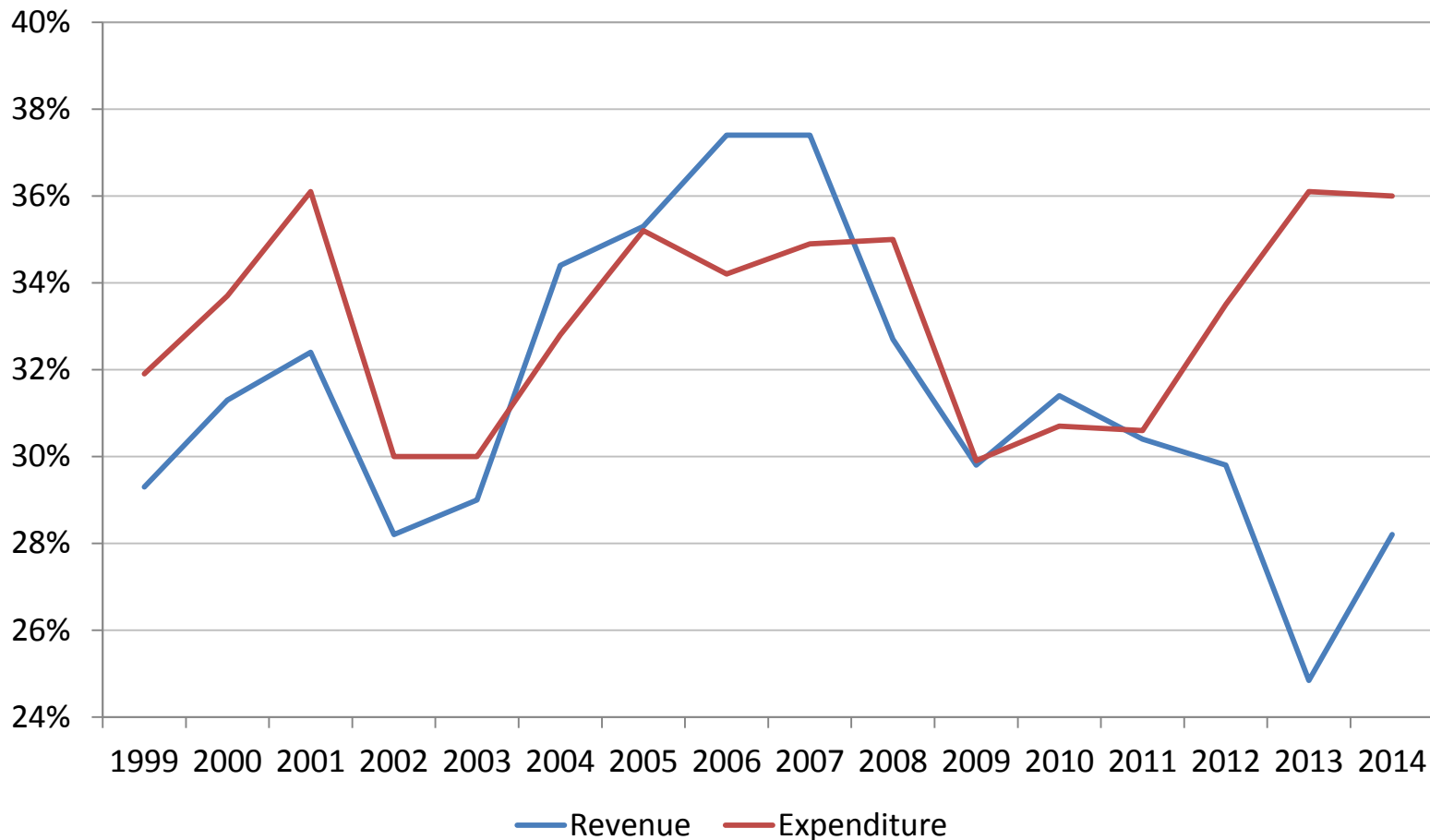
The fiscal balance: from surplus to deficit

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

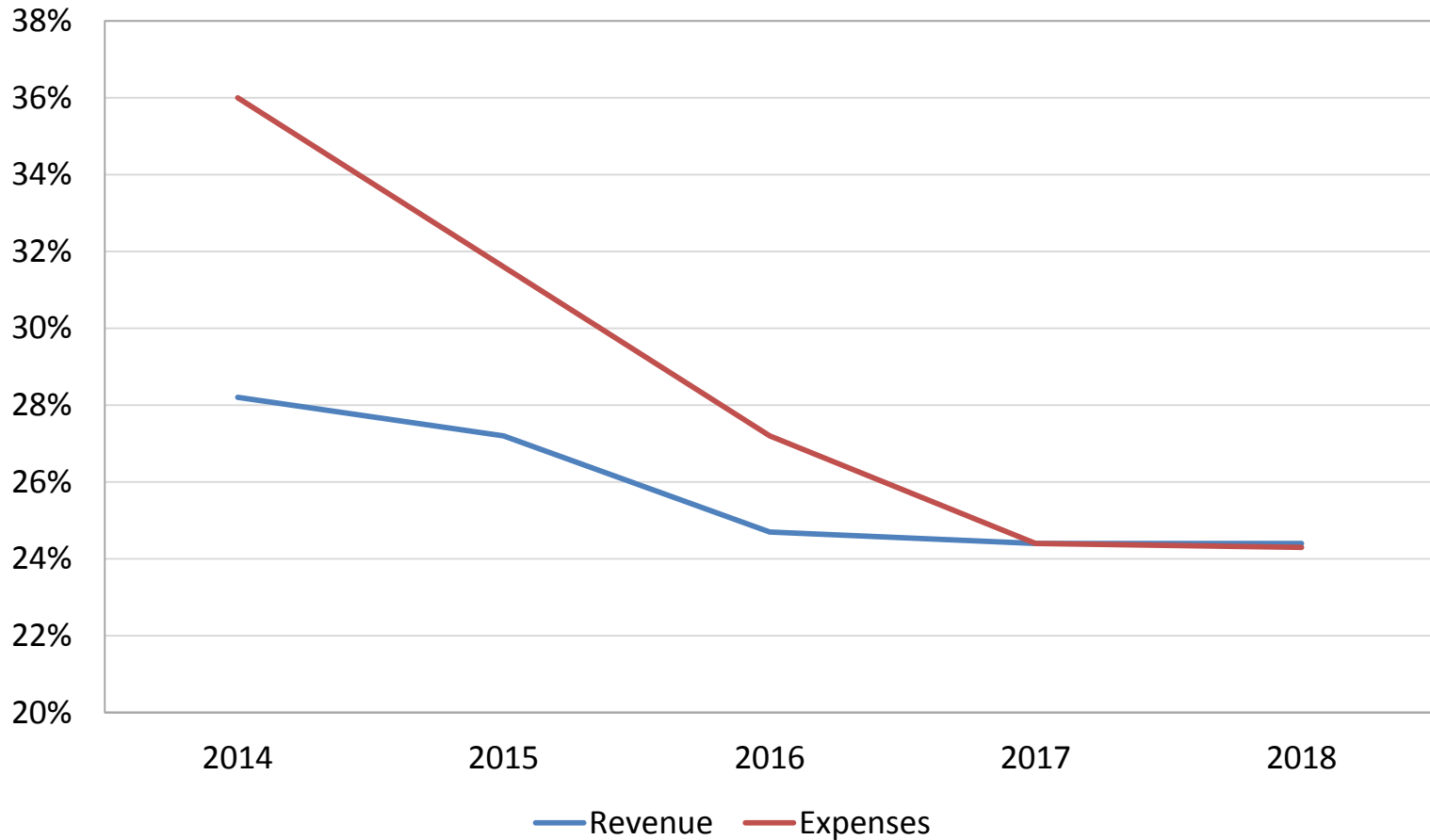
- Central Bank reports that by April 26,
 - Expenditure at 25% of the year's target.
 - Revenue at 16% of the year's target.
 - So deficit after 4 months is at K3,068 million above target for the whole year of K2,272 million.

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.

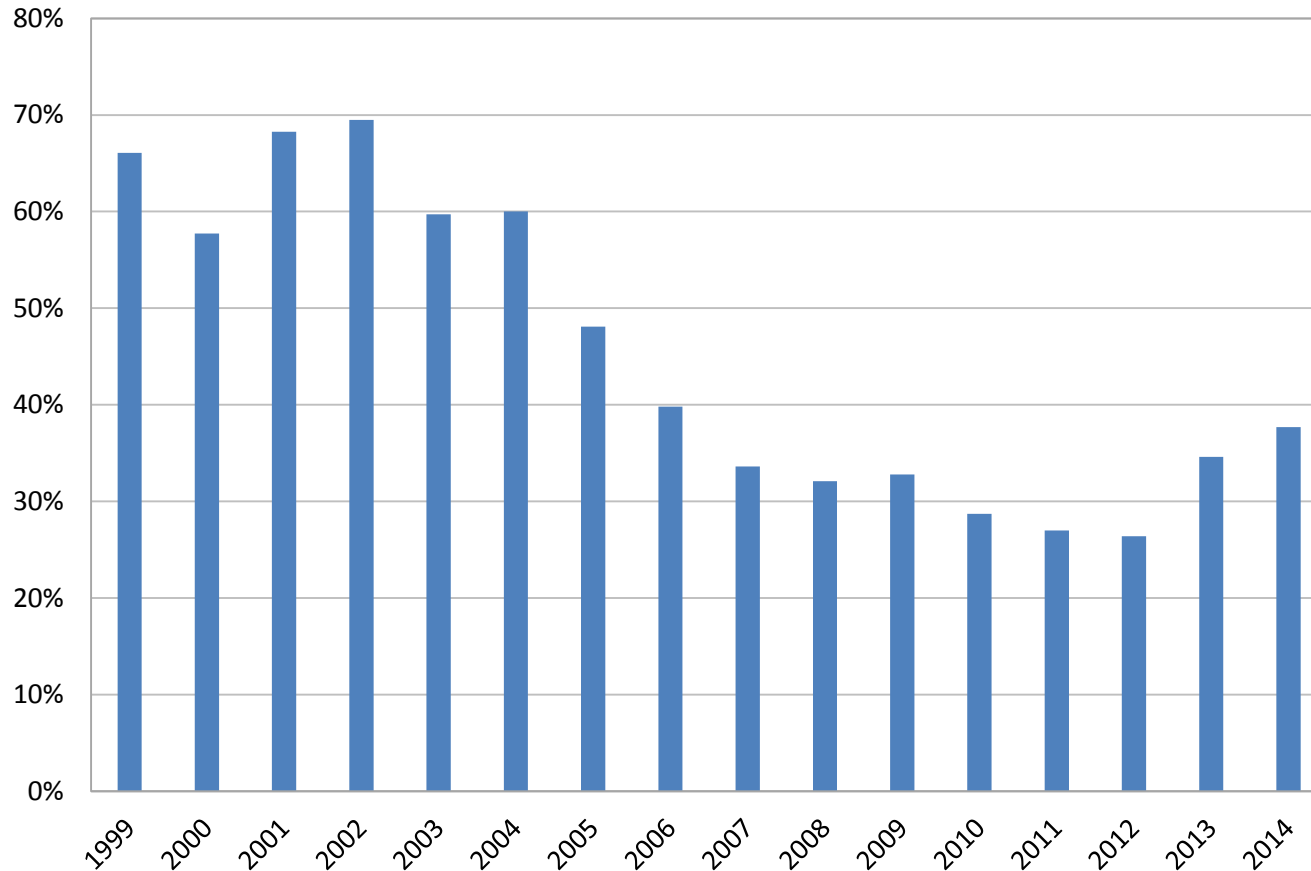
The revenue and expenditure outlook

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



Government debt is now on the increase

Debt/GDP ratio



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

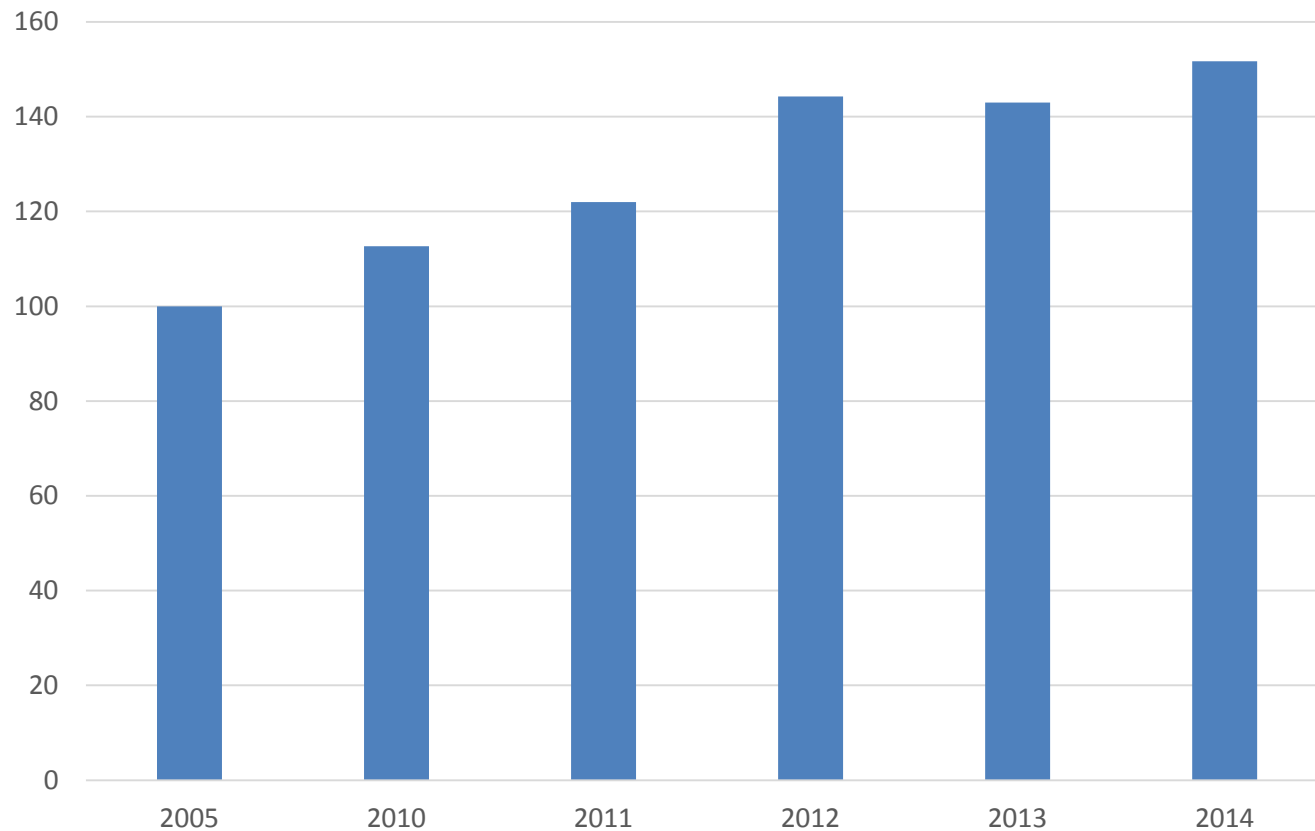
- Free education
 - Government payments have reached schools
 - Enrolments have increased
 - Schools have been over-compensated for the abolition of fees
- Free health
 - Government payments reach fewer than half of the health clinics.
 - 83% of health clinics rely on user fees.

Gender equality: areas of progress

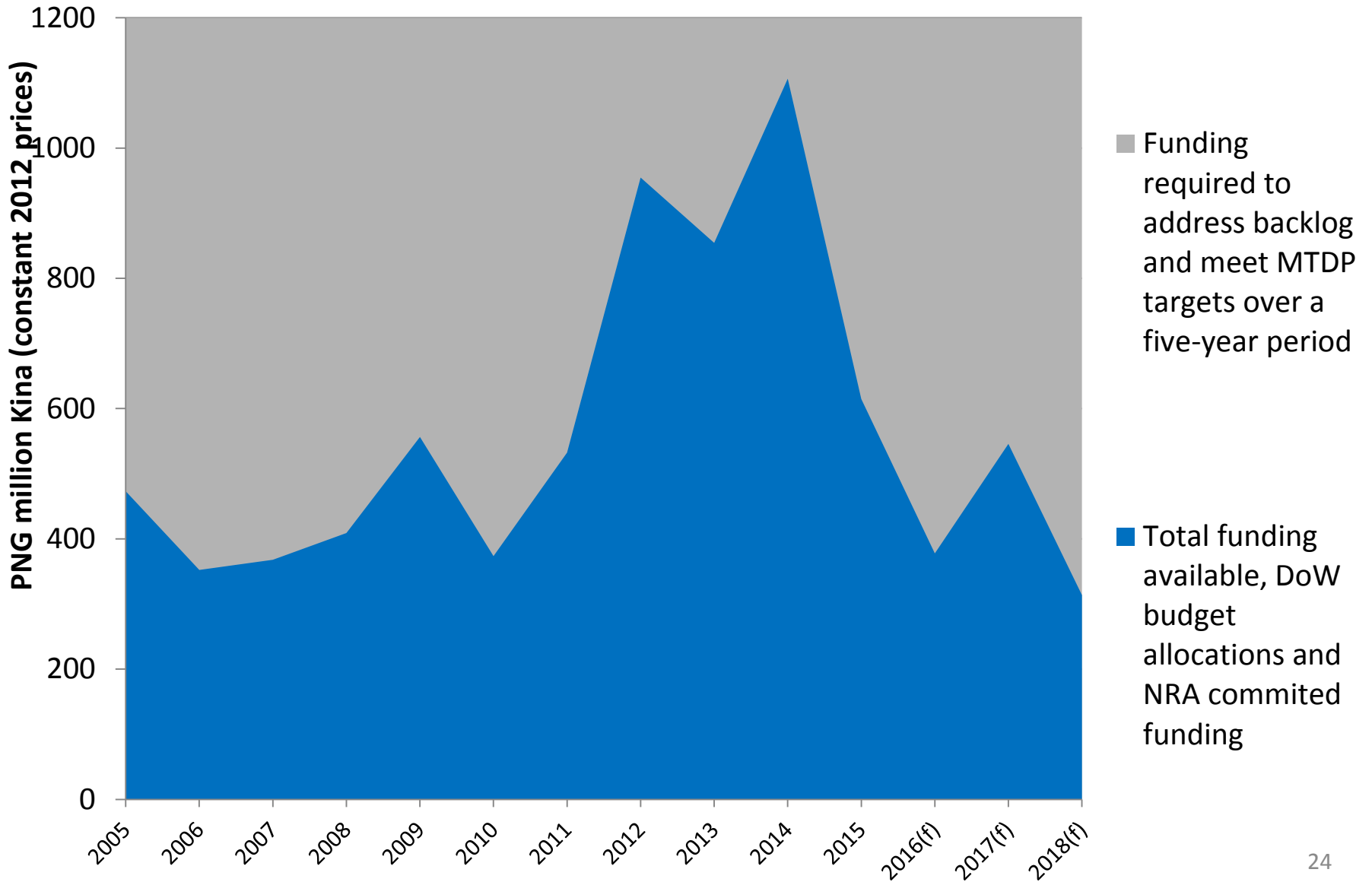
- More women in the workforce
 - proportion of female primary school teachers has increased from 27 to 55% over the last decade.
- New Family Protection Act
- Increasing number of programs
 - to make markets safer for women.
 - to support women who have been victims of domestic violence

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



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.



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Thank you