

# PNG Economic overview

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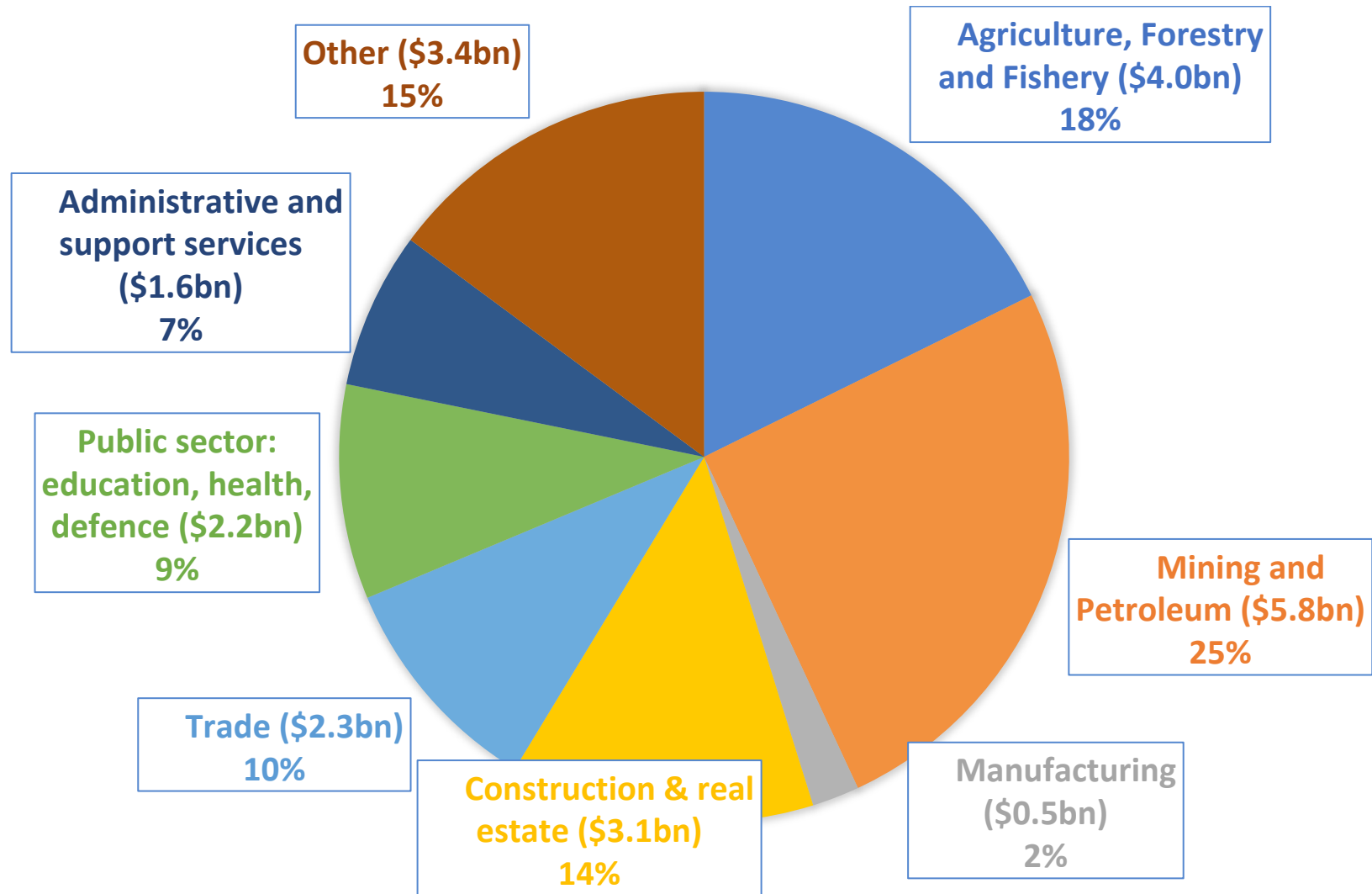
August 2018

# Key messages

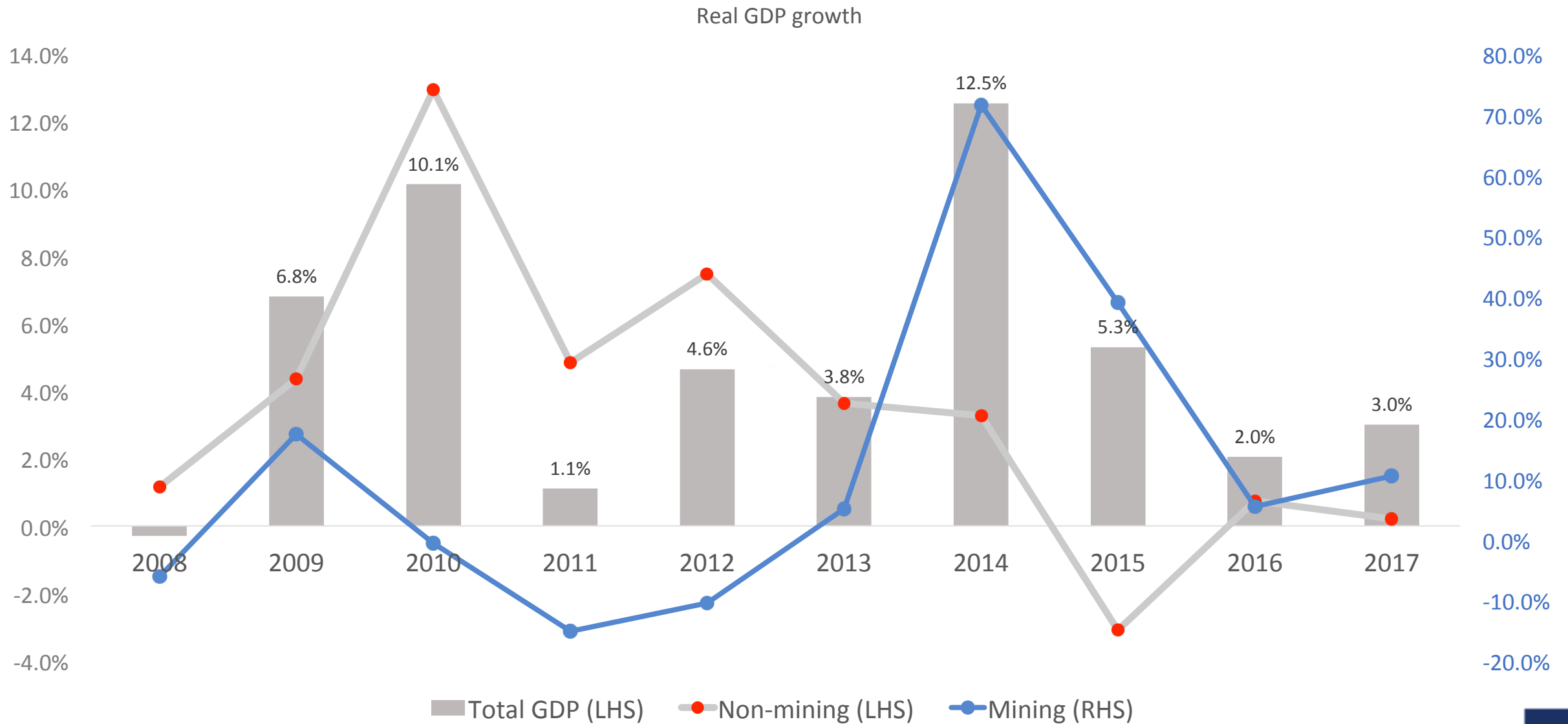
- Better commodity prices helped growth and inflows of foreign exchange in 2017 and first half of 2018
- Future growth expected from 2020 with new resource projects & infrastructure
- Fiscal consolidation strategy on target
- Forex challenges remain, although backlog is reduced

# Growth and exports

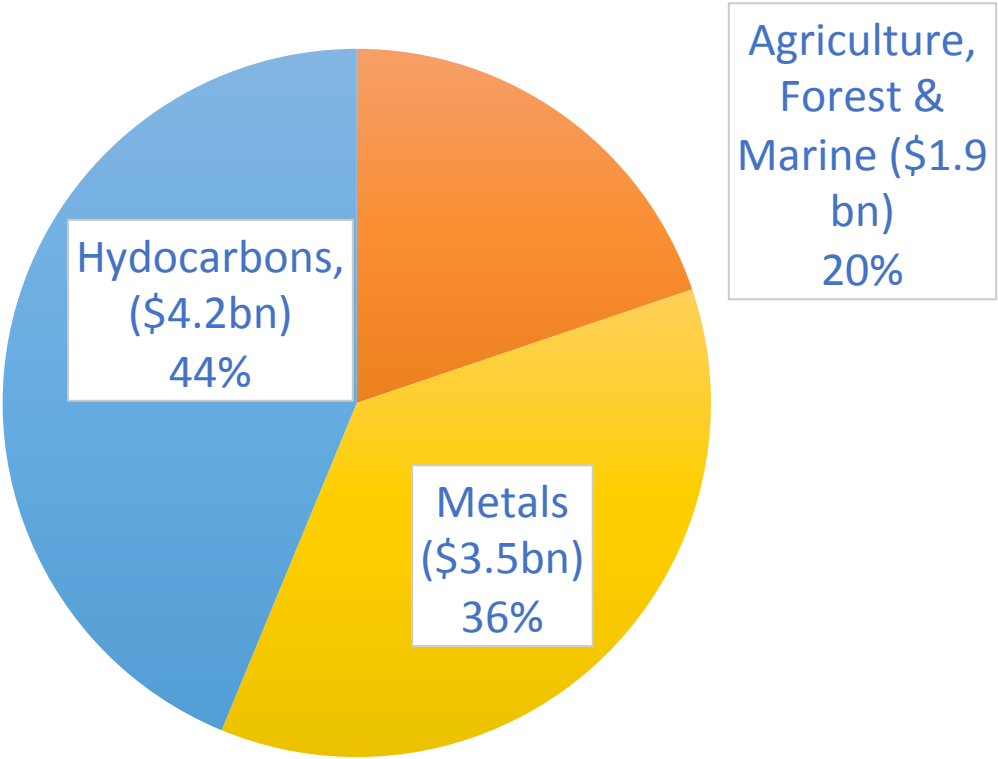
# GDP was \$23 billion in 2017



# The economy grew by 3% in 2017



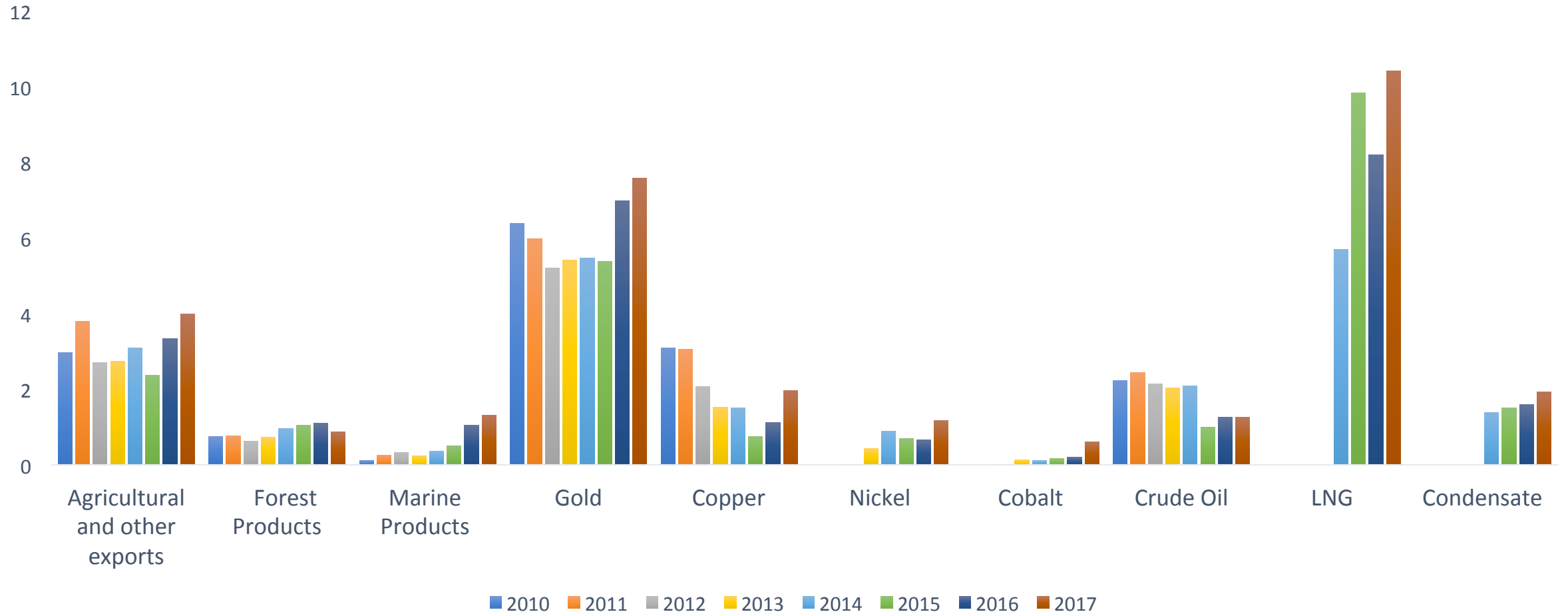
# The economy is driven by exports (\$9.6 billion in 2017)



Largest exports		
LNG	33%	\$3.2bn
Gold	24%	\$2.3bn
Copper	6.3%	\$607m
Condensate	6.2%	\$599m
Palm Oil	4.3%	\$415m
Marine	4.2%	\$405m
Crude	4.0%	\$389m
Refined Petroleum	3.8%	\$370m
Forest	2.8%	\$268m
Coffee	1.4%	\$139m

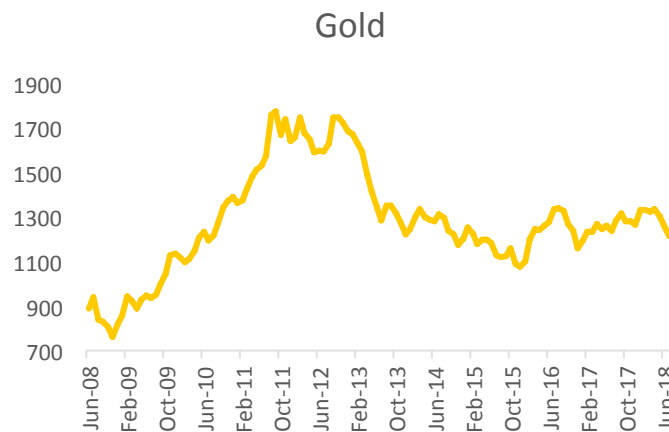
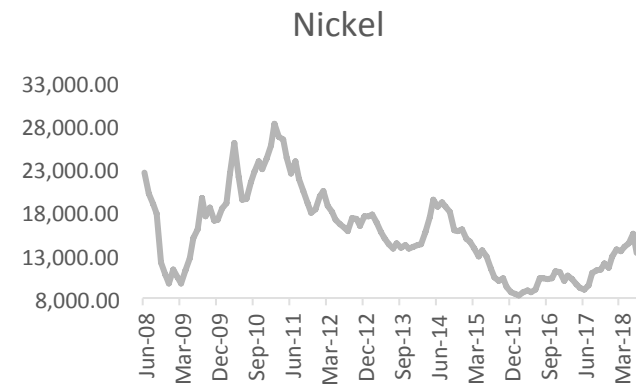
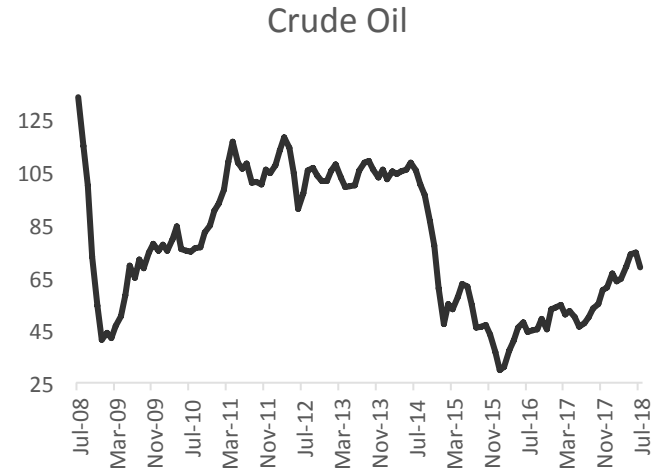
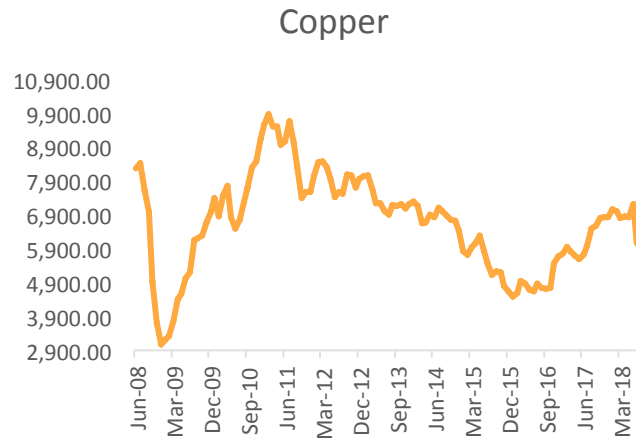
# Exports grew by 22% in 2017 in value terms on improved prices and higher output

## Major Exports (Kina billions)

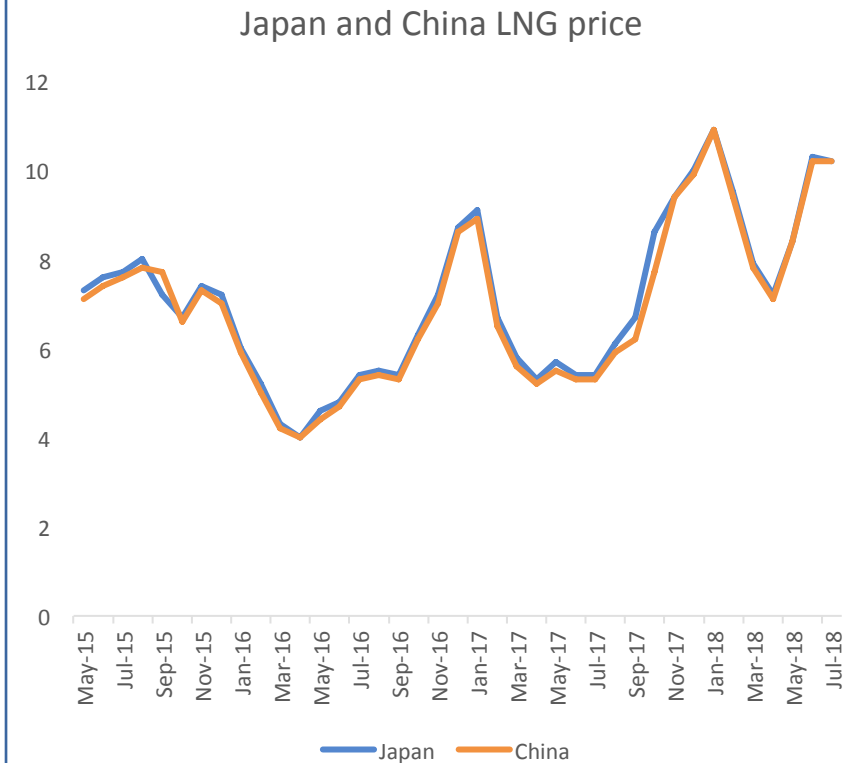


Higher metal and LNG prices have provided stimulus to the economy, although metal recently weaker due to trade war

Prices of key exports over ten years

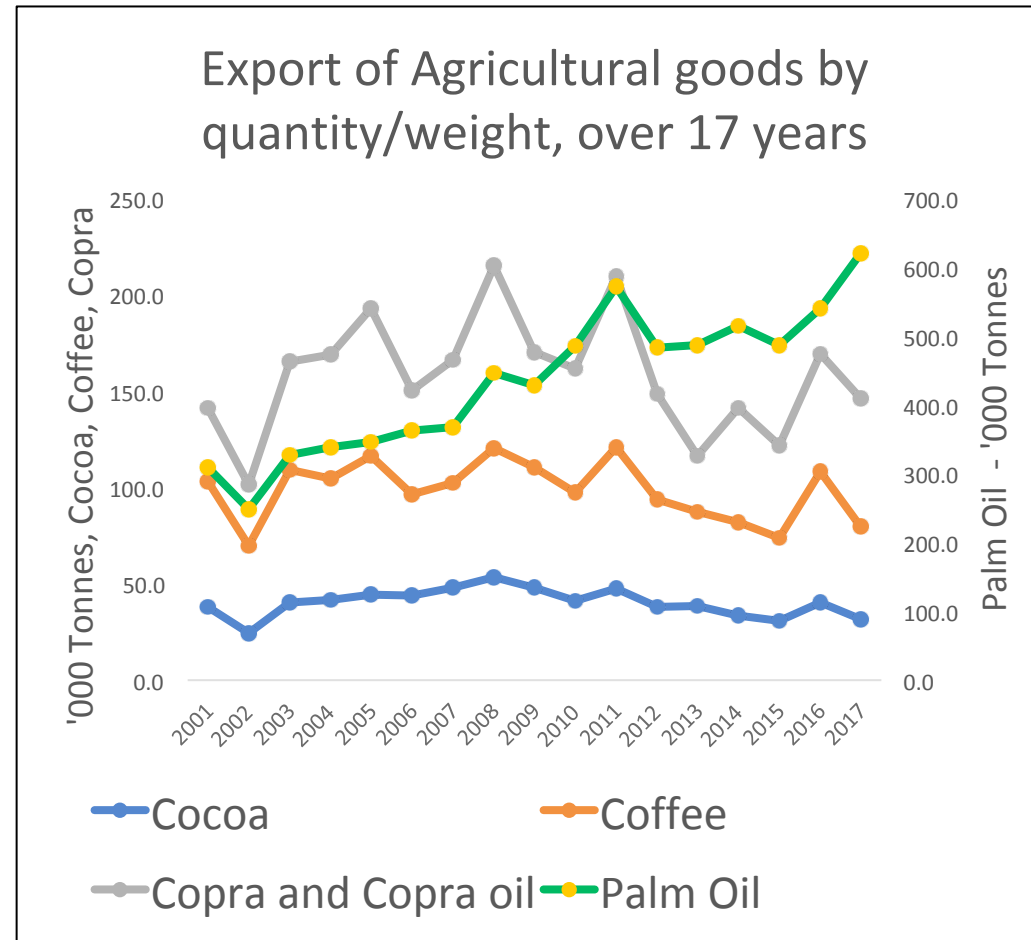
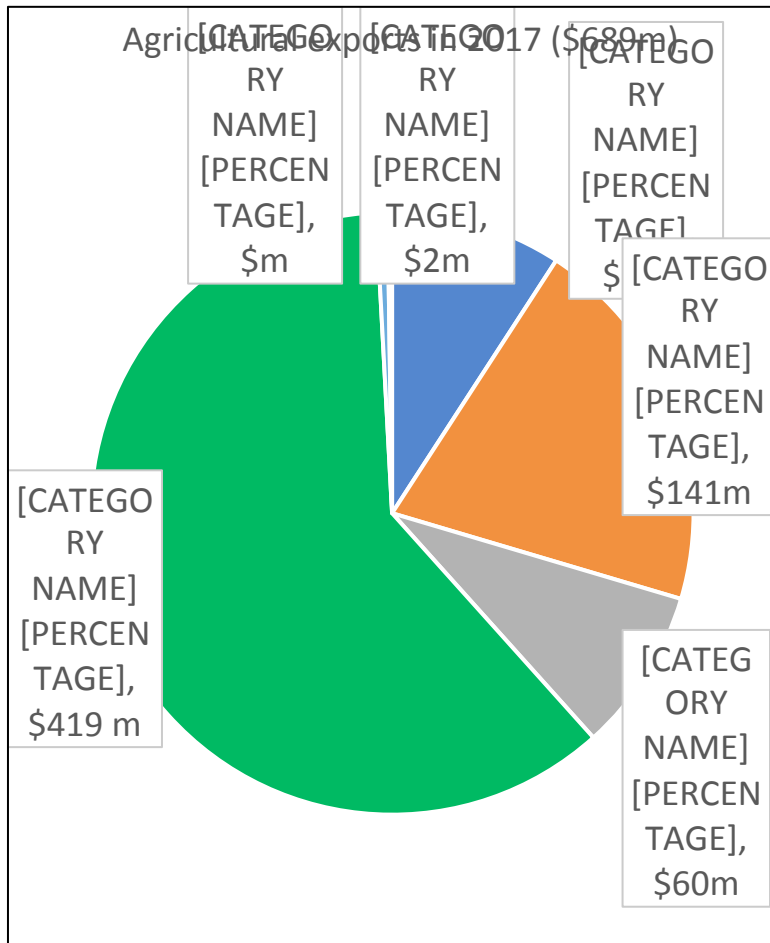


LNG price over three years, from May 2015 to July 2018

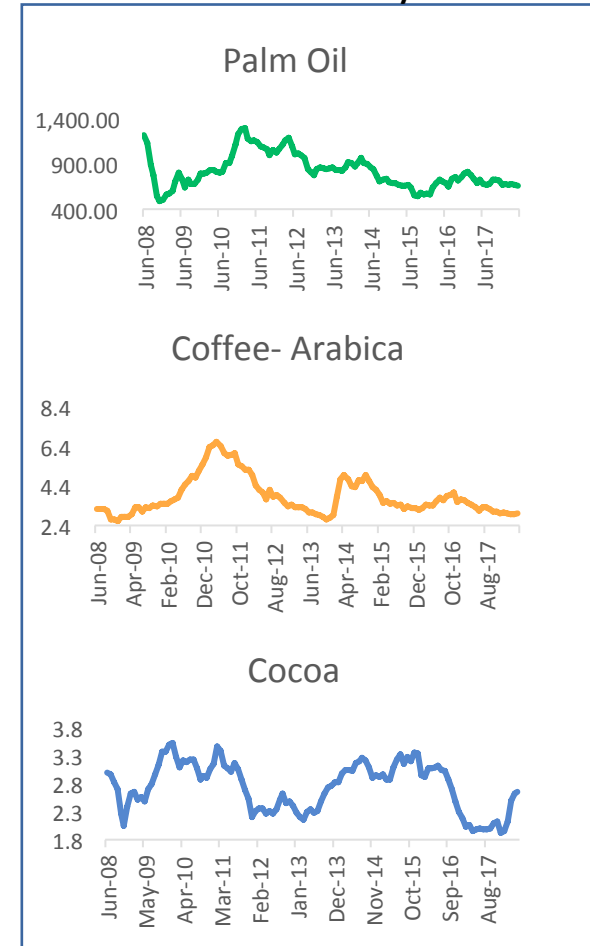




# Agricultural exports (\$689m) are key for thousands of smallholders



## Prices over ten years:



# The non-mining sector remains slow:

GDP growth	2015 (actual NSO data)	2016 (Treasury estimates)	2017 (Treasury estimates)
<i>Non-mining sector</i>	<i>-3.1%</i>	<i>0.7%</i>	<i>0.2%*</i>
Construction	-14.4%	1.6%	-8.0%*
Real Estate	4.4%	1.0%	2.0%
Trade, wholesale and retail	-4.9%	1.0%	2.0%
Manufacturing	-9.0%	2.0%	3.0%
Accommodation and Food	3.9%	0.5	-2.1%*
Agriculture	-2.6%	3.4	2.6%

\*latest data from Treasury 2018 MYEFO

Business Surveys:	Top constraints to doing business:
<b>Oxford Business Group (2018)</b>	<ol style="list-style-type: none"> <li>1 Currency/Foreign Exchange</li> <li>2 Regulatory Framework</li> <li>3 Infrastructure</li> </ol>
<b>PNG Business Advantage (2018)</b>	<ol style="list-style-type: none"> <li>1 Currency/Foreign Exchange</li> <li>2 Infrastructure/Telecommunications</li> <li>3 Law and Order</li> </ol>
<b>Institute of National Affairs (2017)</b>	<ol style="list-style-type: none"> <li>1 Currency/Exchange rates</li> <li>2 Corruption</li> <li>3 Infrastructure</li> </ol>

# 2018 GDP growth

- Growth revised to 1.0% from 2.4% (Treasury forecast) due to earthquake
- Earthquake impact: -1.4% of GDP (Treasury forecast) due to lost exports
  - Oil and gas to contract by -4.5%
  - Mining to contract by 0.1%
- Non-mining sector growth for 2018: 2.8%
  - Agriculture: 3.1%
  - APEC: positive effect on growth

# 2019 and beyond

2019:

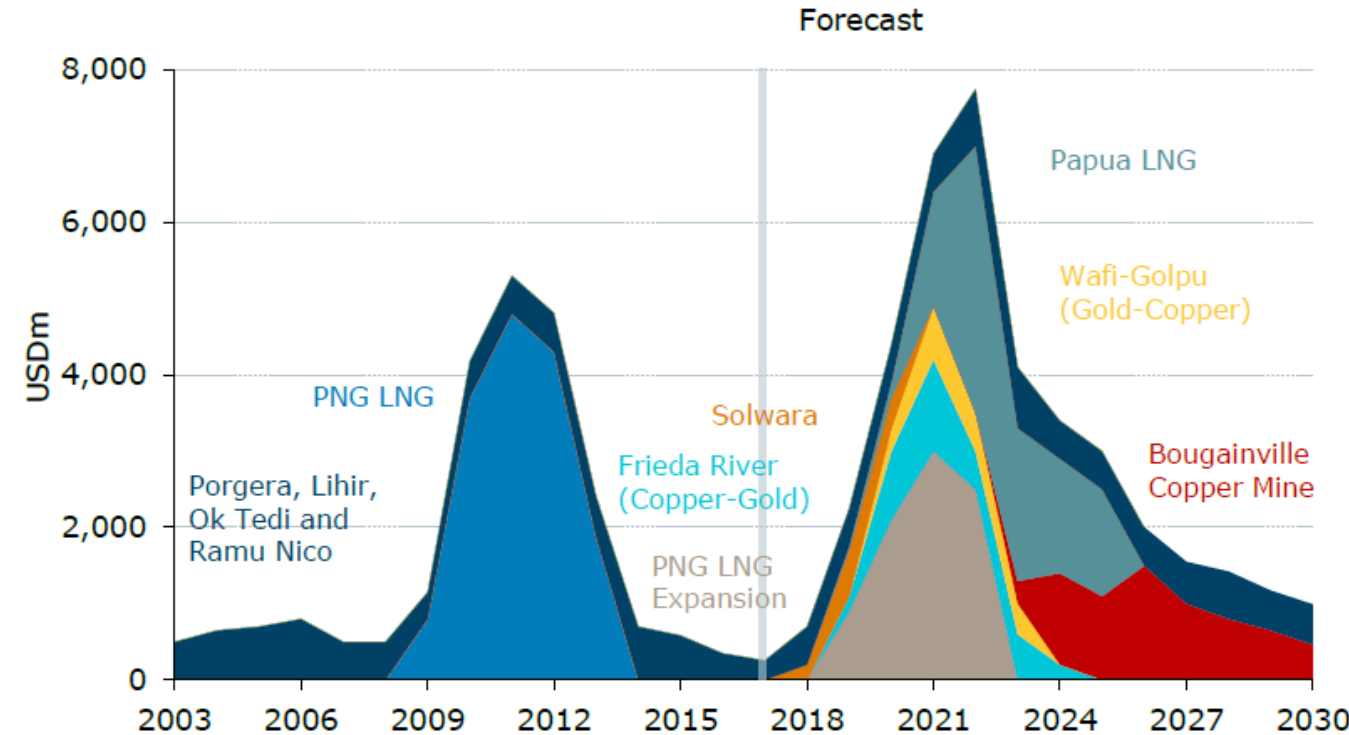
- Growth expected to accelerate due to full year of LNG, oil & gold production

2020:

- Two new LNG projects/trains expected to commence: \$11-12bn

Other:

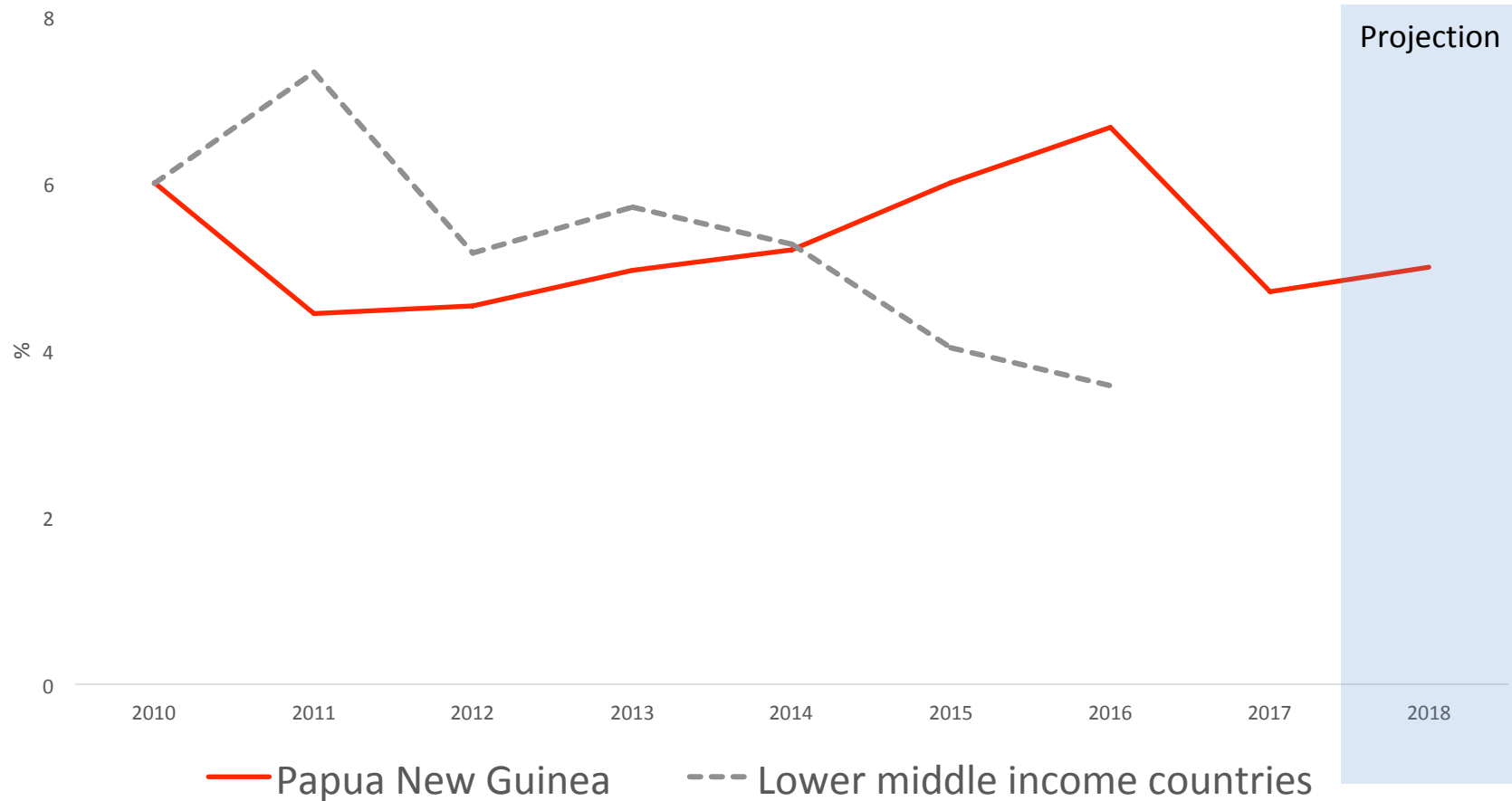
- Wafi-Golpu (2020): \$2.8 billion
- Frieda River (2024/25)
- New infrastructure: Energy, Transport
- One Belt One Road



Source: PNG Chamber of Mines and Petroleum, ANZ Research

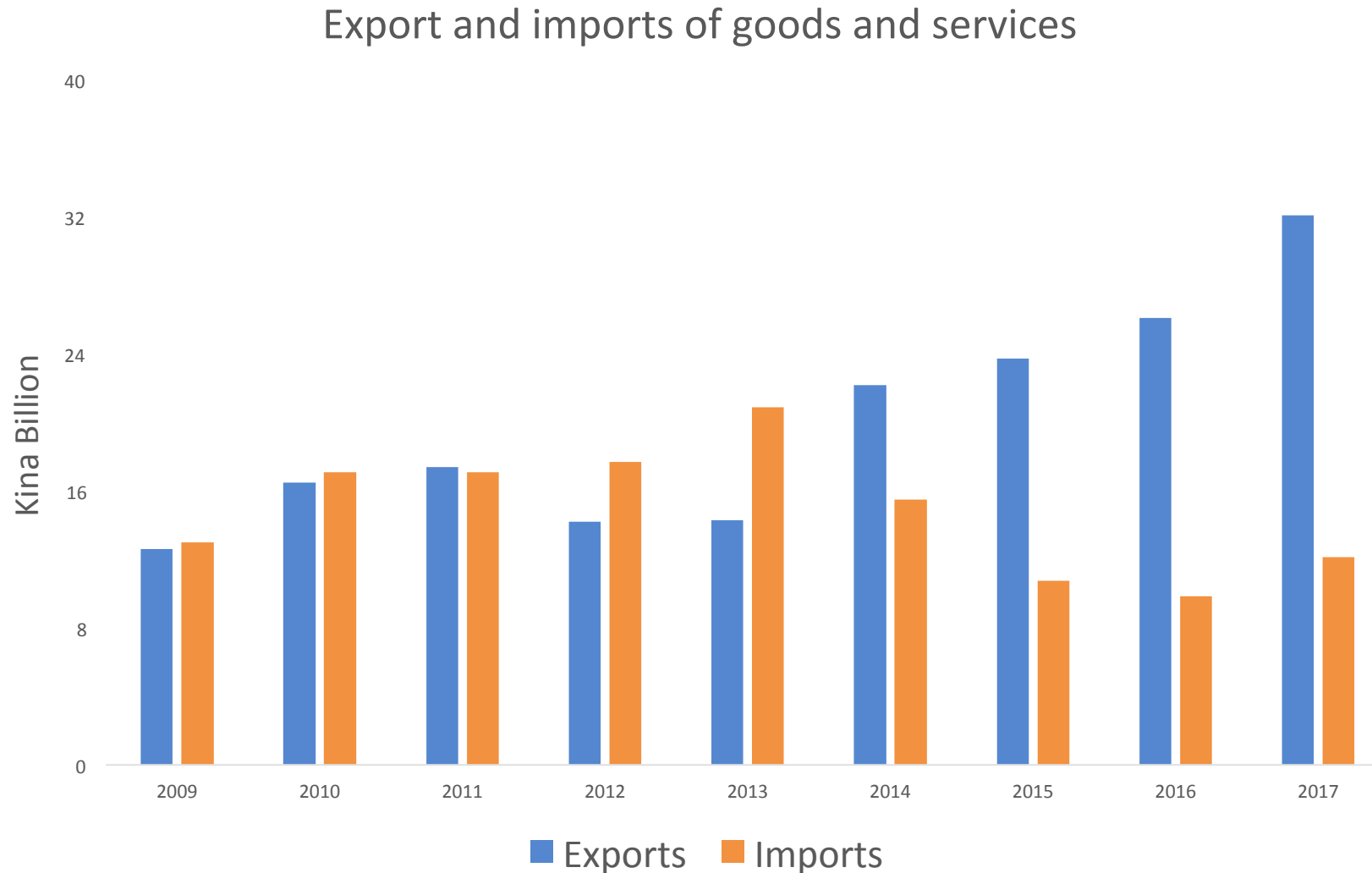
Inflation,  
Current account,  
Foreign exchange

# Inflation is high, but slowed in 2017

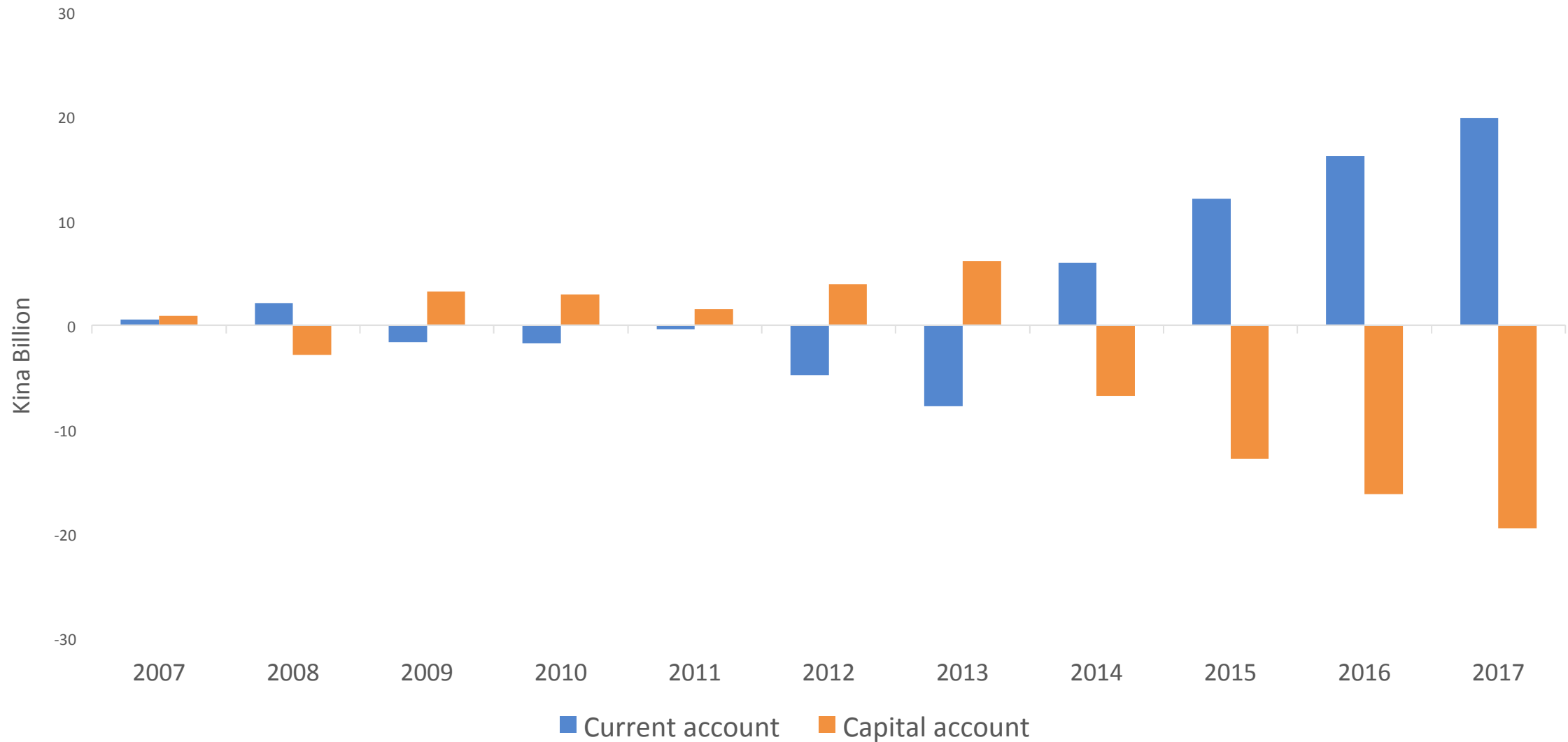


PNG	2017
<b>Overall</b>	<b>4.7%</b>
Food & beverages	1.3%
Alcoholic beverages, tobacco and betelnut	12.0%
Clothing & footwear	4.1%
Health	10.6%
Household equipment	6.9%
Housing	5.0%

# Large trade surplus due to LNG exports and higher commodity prices



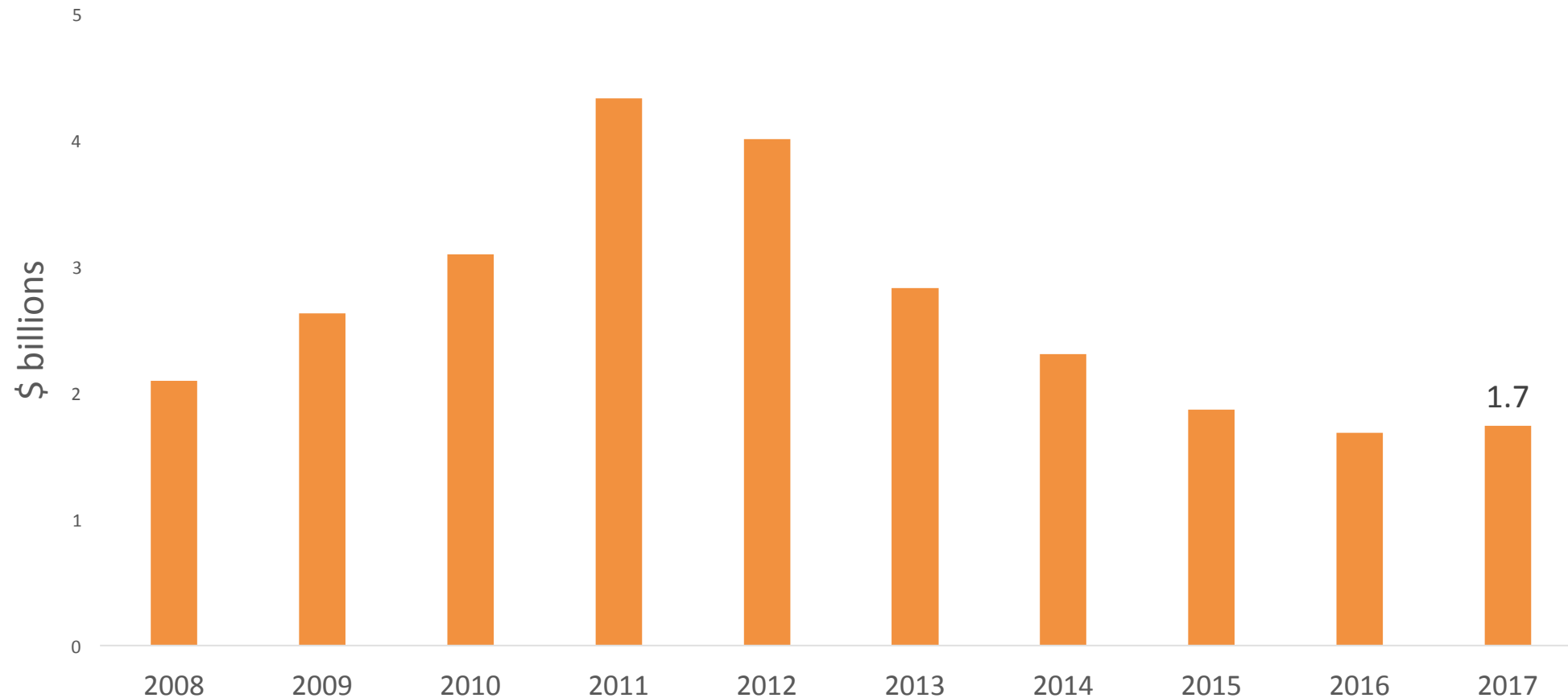
# The current account surplus (13.9% of GDP) is neutralized by capital account outflows





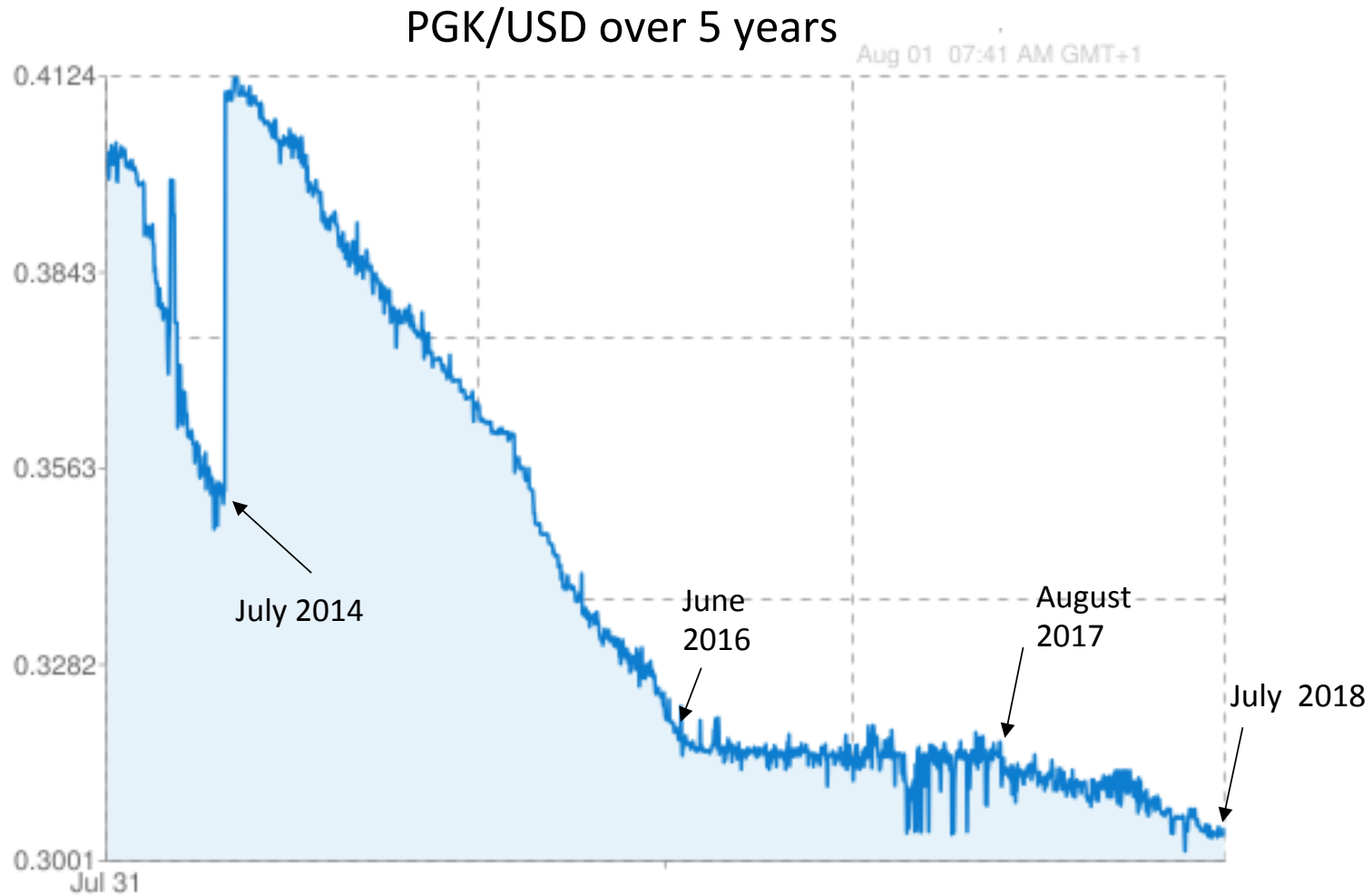
Foreign exchange reserves are \$1.6 billion (5 months of imports)

### Foreign Exchange reserves



The foreign exchange backlog has reduced to about \$500 million

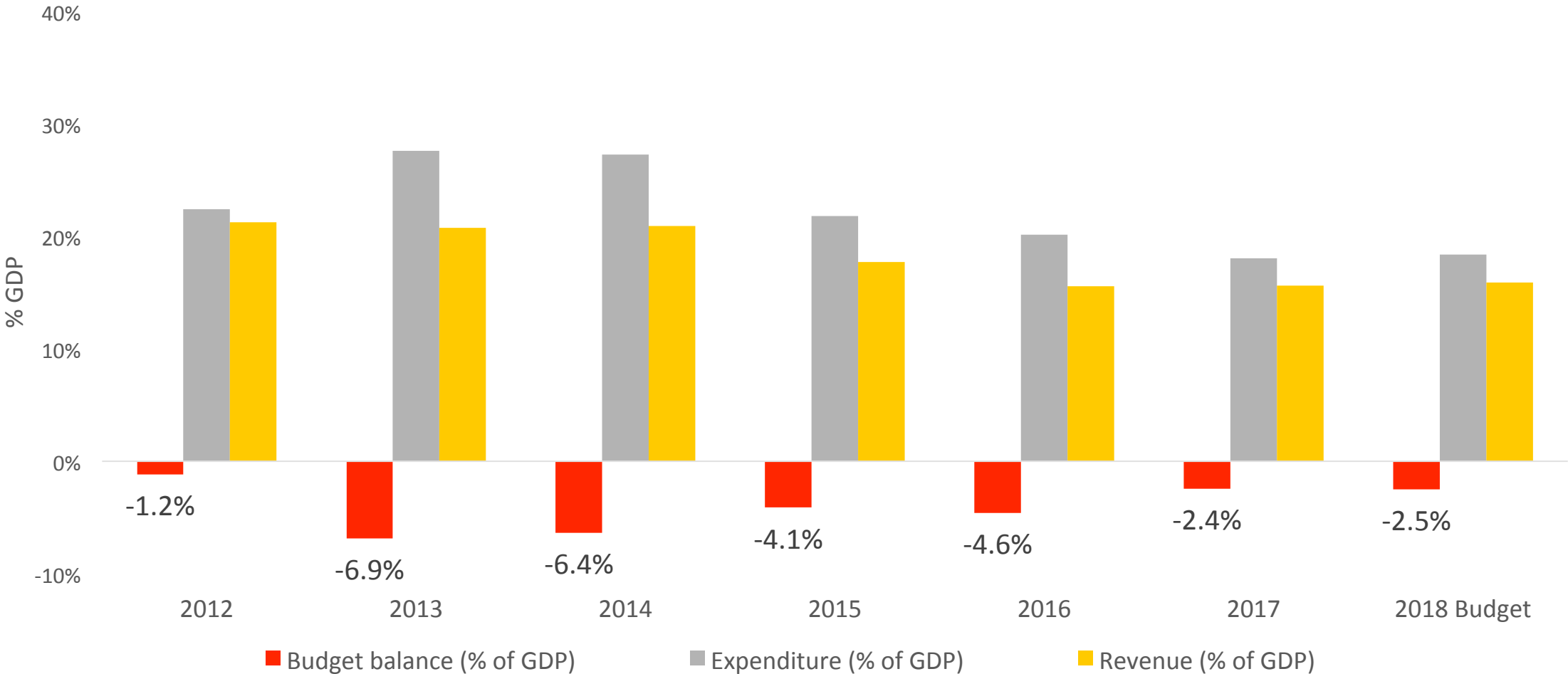
# The exchange rate is slowly depreciating



Source: <https://www.exchangerates.org.uk>

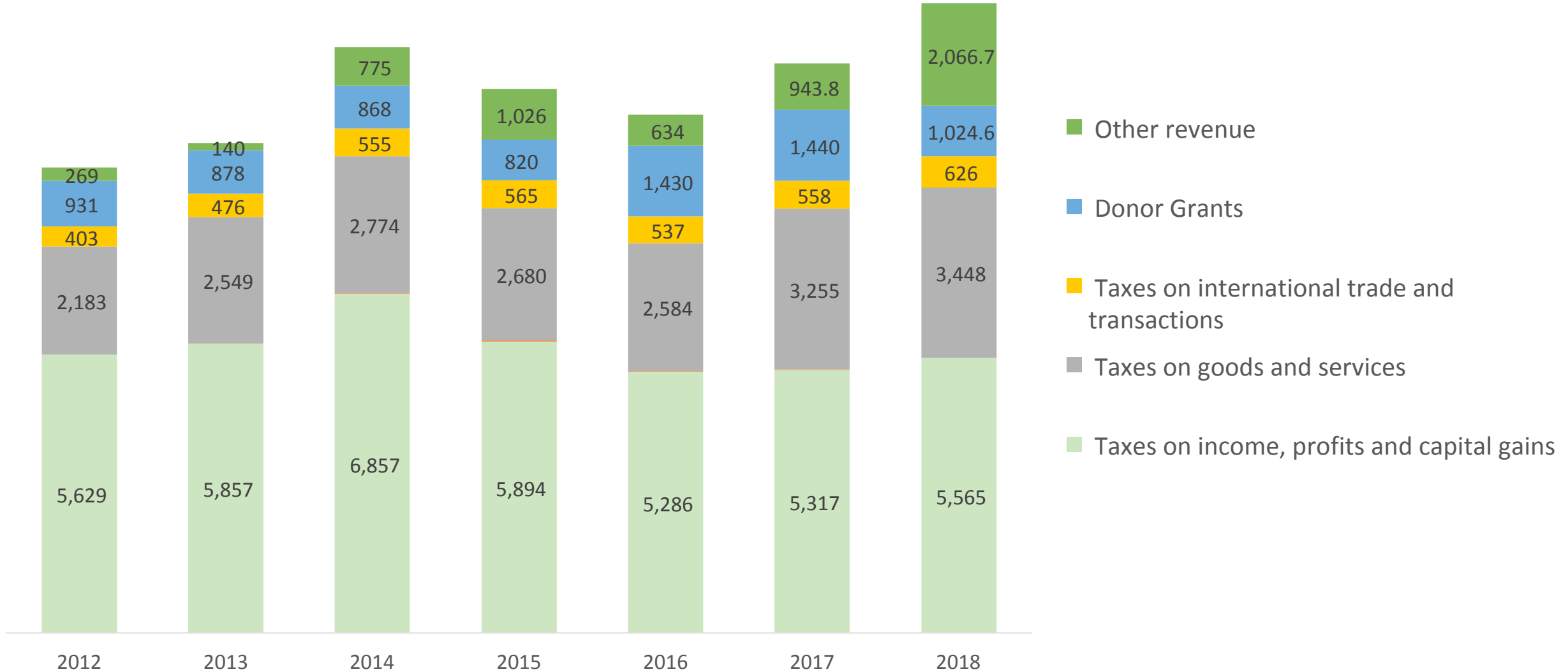
# Recent Fiscal Outcomes

# The fiscal deficit has fallen to 2.4% of GDP in 2017.



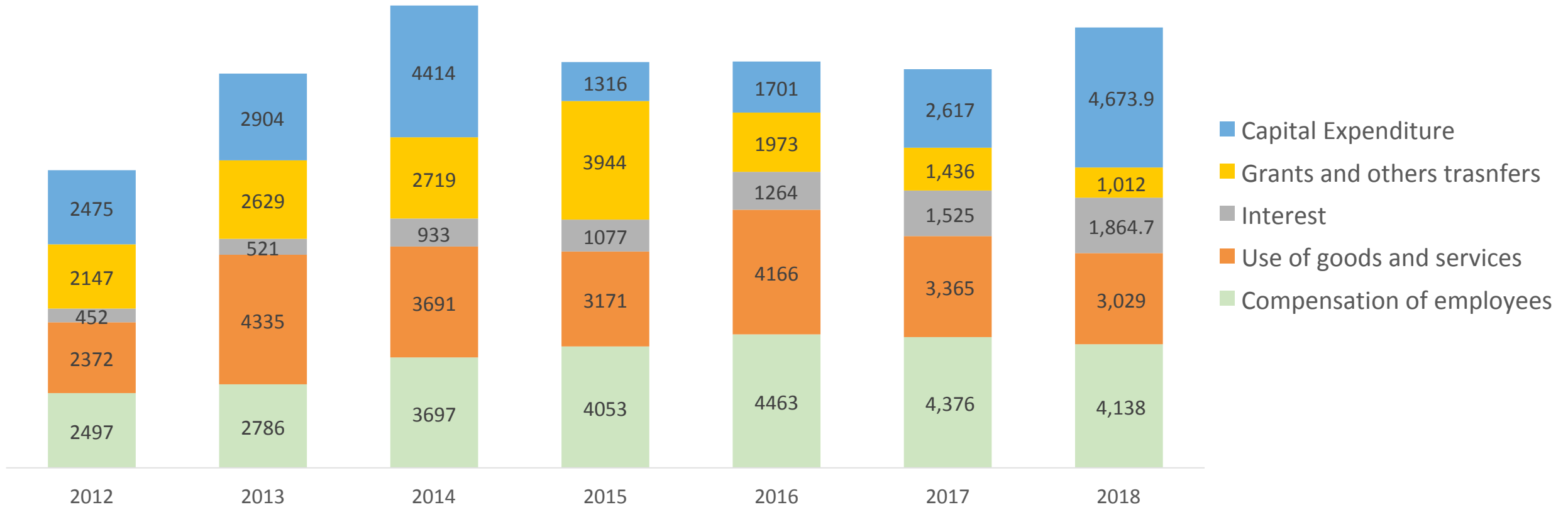
# Composition of Revenue (15.6% of GDP, PGK 11.5bn)

Composition of Revenue (Kina Billions)



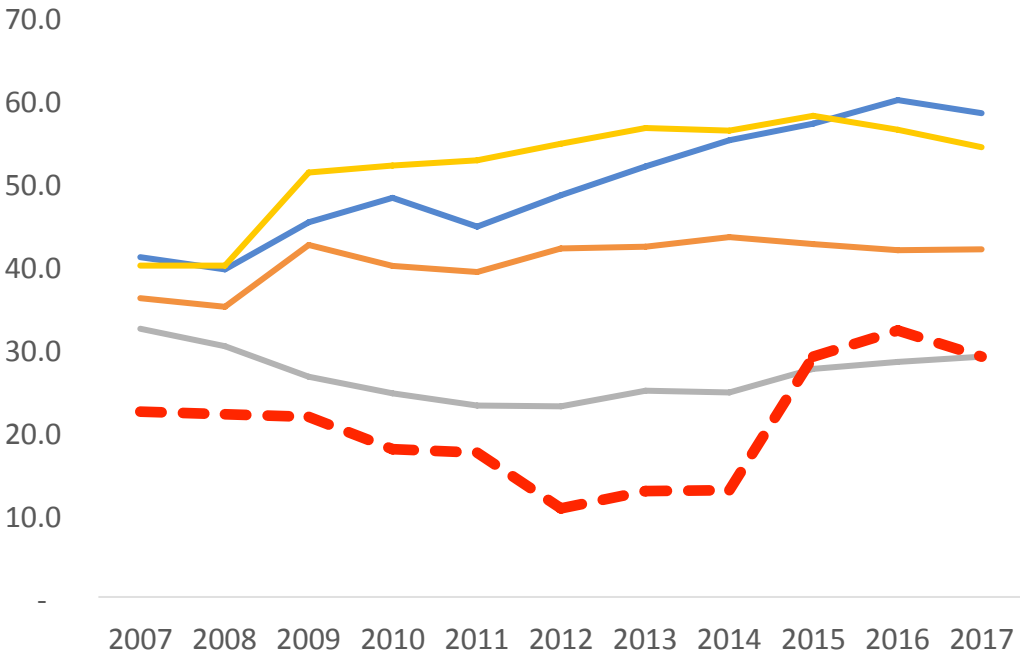
# Composition of Expenditures (18% of GDP, PGK 13.3bn)

Composition of Expenditure (Kina Billion)



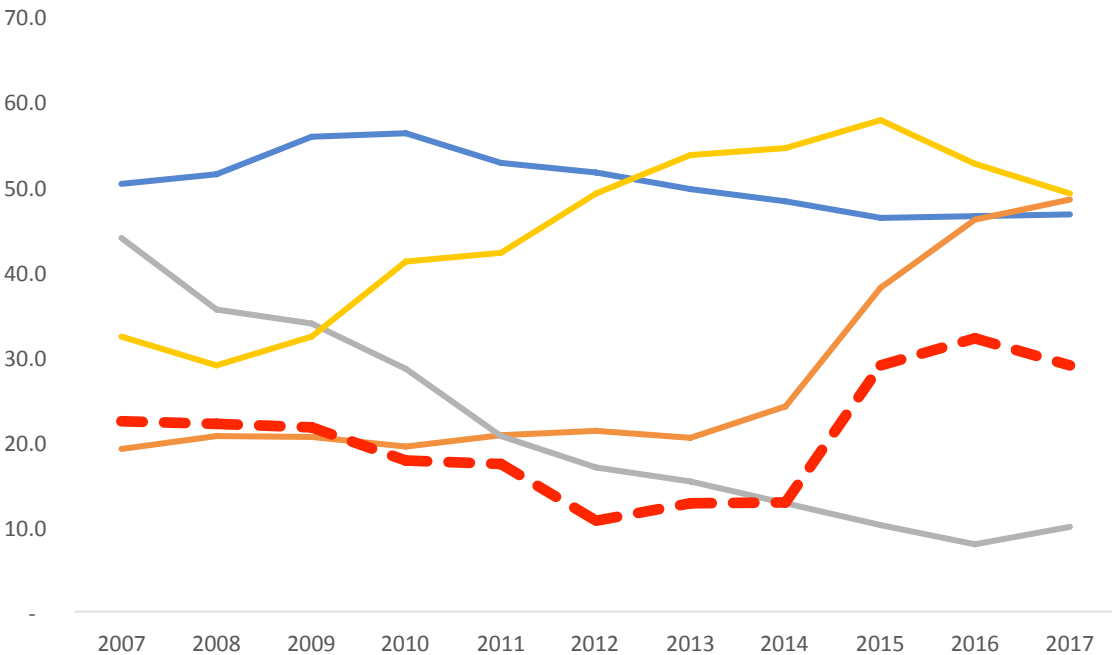
# PNG's public debt at 32% of GDP is lower than peers

Public Debt (% of GDP)



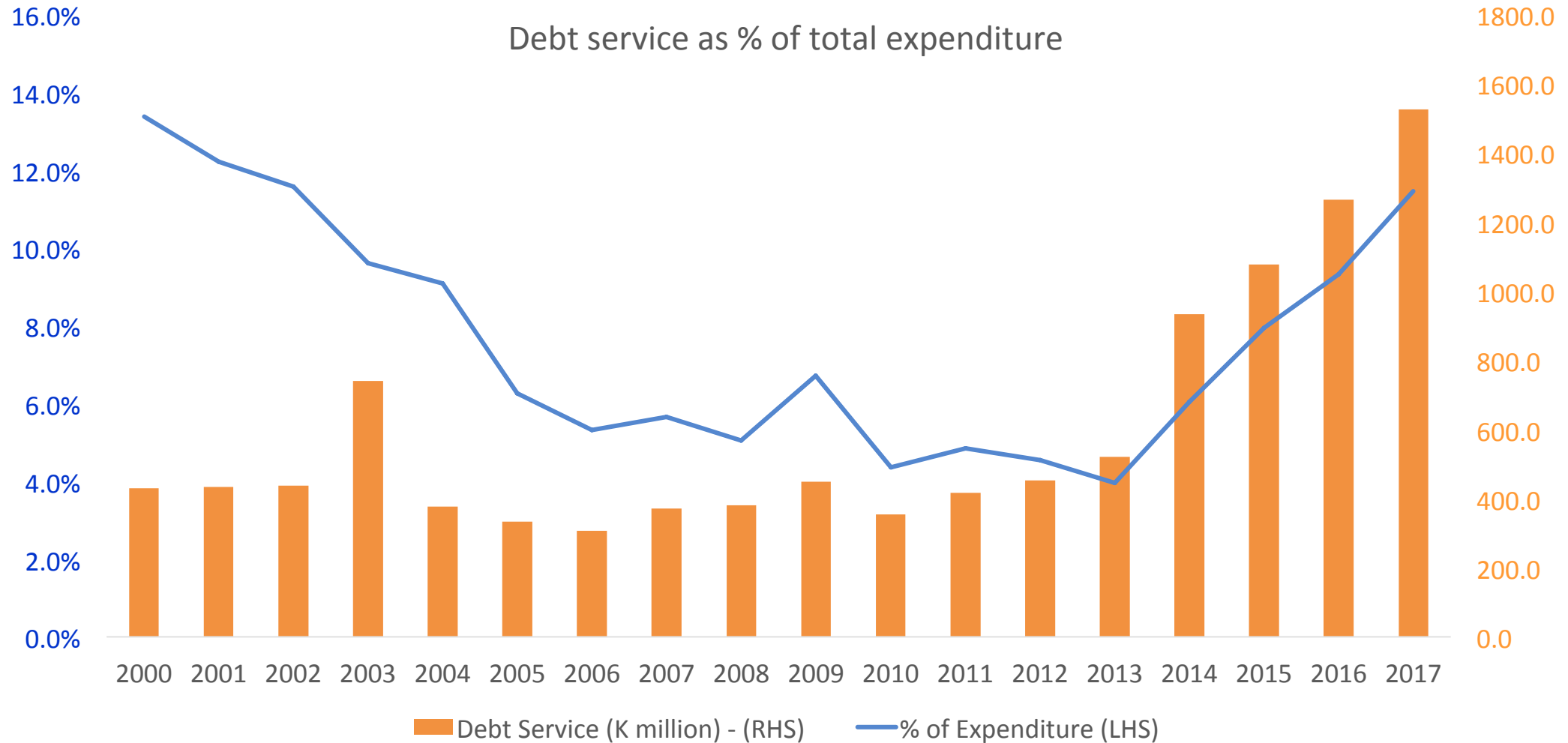
— Viet Nam — Thailand — Indonesia  
 — Malaysia - - - PNG

Public Debt (% of GDP)



— Fiji — Vanuatu — Solomon Island  
 — Samoa - - - PNG

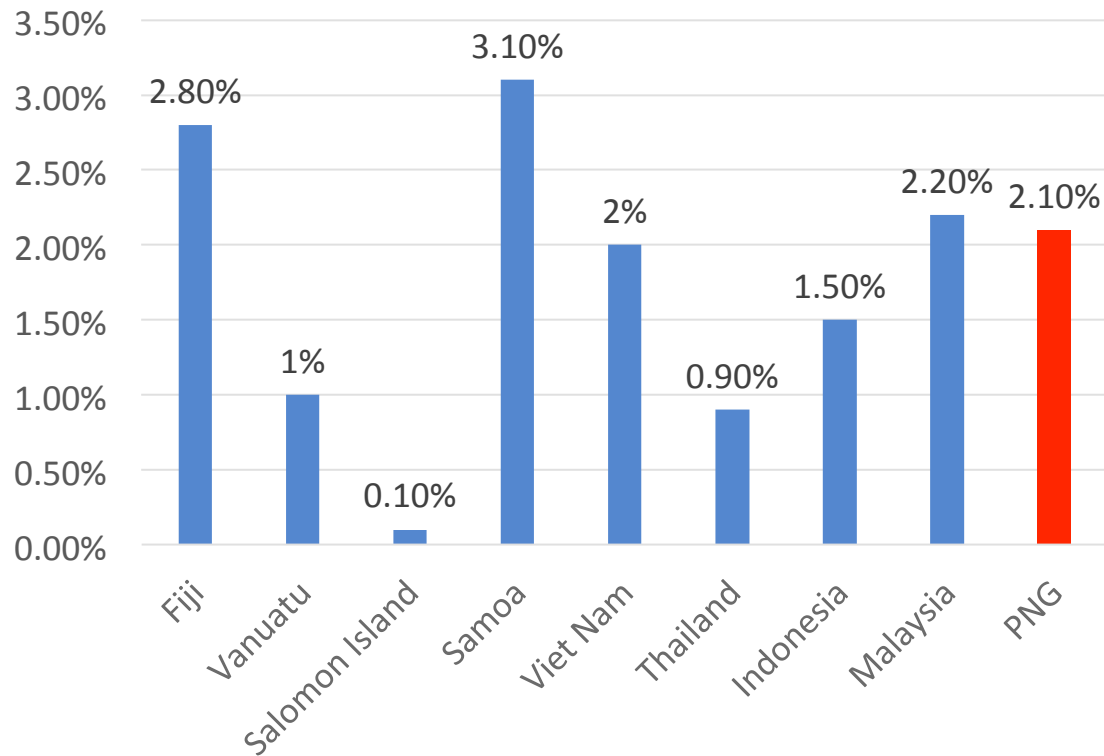
# Interest costs have increased



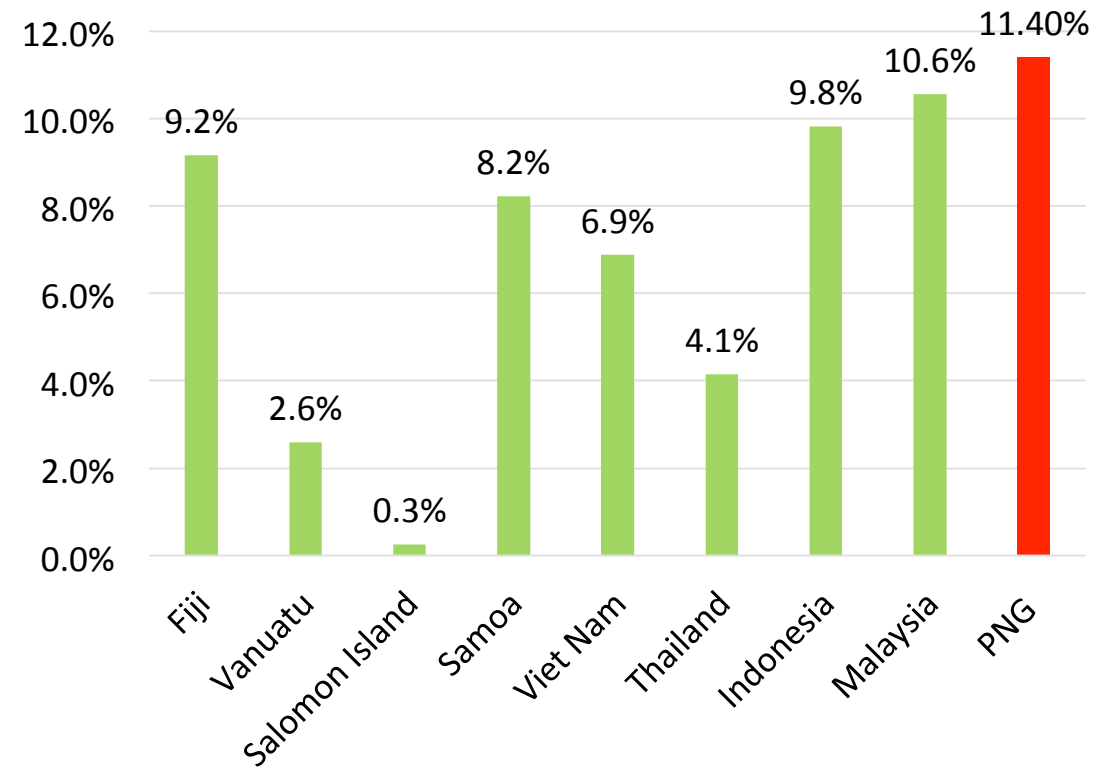


# Interest costs are high compared to peers:

Debt Service (% of GDP) in 2016 - Selected Countries



Debt Service (% of expenditure) in 2016 - Selected Countries



# Medium Term Debt Strategy

- Reduce interest costs and diversify the debt profile:
  - May 2018: ADB loan for \$100 million
  - 2018: World Bank loan of \$150 million
- Sovereign debt issuance planned for September, \$500 million

# Themes on the economy

# Economic themes

- Sovereign wealth fund is needed to manage the next cycle
- Next investment cycle will come with social/political risks
- Infrastructure for growth: roads, electricity: ADB \$1.5 billion 3 year pipeline
- Manufacturing: forestry and fisheries: down-stream processing
- Agriculture and tourism for diversification

# Conclusion

# Summary

## Upsides:

- Improved trends in some commodity prices
- Fiscal consolidation is on track
- Large investments in the pipeline from 2020 onwards

## Key challenges:

- Commodity price volatility
- Forex shortages, although reduced
- Constrained government spending

# End of Presentation

## Thank you

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