

ANZ RESEARCH

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PAPUA NEW GUINEA

POTENTIAL ECONOMIC CONTRIBUTION
OF THE PROPOSED PAPUA LNG PROJECT



Papua LNG project benefits: at a glance

On track for final investment decision by early 2024

PGK42bn

Upstream LNG development of the Elk and Antelope gas fields in Gulf province.

capex

320km of pipeline to existing PNG LNG downstream facility.

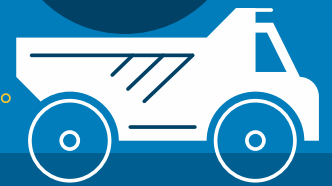
A four e-train processing facility, with capacity to move 5.4m tonnes per year.

We estimate a cumulative PGK5.6bn addition to construction GVA during the building phase.

With another PGK7.7bn to gas output when production begins in 2028.

Total direct contribution equal to 20% of 2022 GDP.

+PGK13bn direct add to GDP



+PGK15bn indirect add to GDP

Flow-on benefits to transport, business services and a range of other services required by Papua LNG.

Total indirect contribution equal to 22.3% of 2022 GDP.



+PGK28bn in real GDP



Value of construction, related infrastructure, services and gas production will add PGK28bn to real GDP.

Equal to 42% of 2022 GDP.

3.9 jobs supported

For every PGK1m invested by the Papua LNG project, 0.6 jobs likely to be created.

Another 3.3 jobs supported across formal sector employment.



kina appreciation

Inflows associated with the project to bring the foreign exchange market back in balance by mid-2024.

After that, strong demand for PGK to pay for local contractors and suppliers is likely to see PGK start appreciating from late 2024.



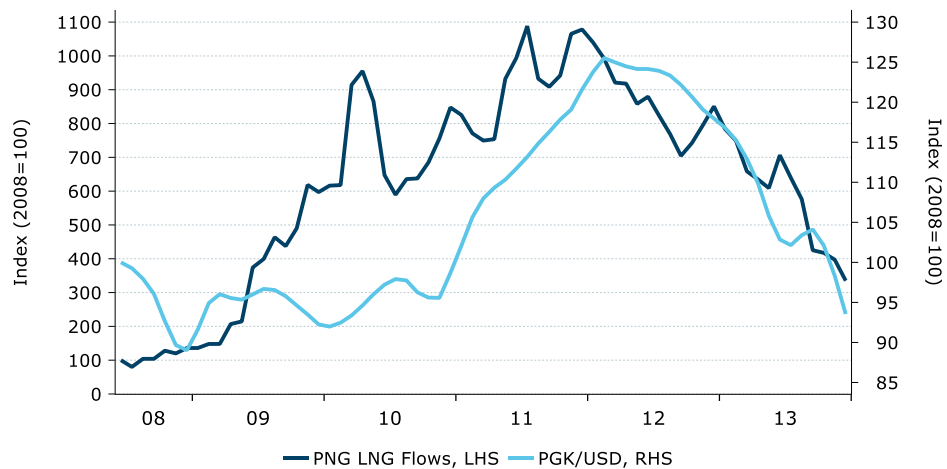
Flows to tip the foreign exchange market back to balance

We believe inward capital flows associated with the Papua LNG project will probably restore balance in PNG's FX market in 2024 as foreign direct investment has an important influence on the kina, as we saw during the PNG LNG construction phase over 2009 to early 2014 (Figure 7).

A ramp-up in investment spending on the PNG LNG project over 2011 to 2012 brought USD into the country. As a result of this expenditure, the PGK/USD appreciated by 27.4% to a high of USD0.4893 in Q3 2012 from USD0.3842 Q1 2011. This occurred despite commodity prices falling during that period, having peaked in early 2011. We expect a similar path for the PGK from late 2024.

With demand for PGK rising to pay for local contractors, suppliers and labour associated with the mega projects including Papua LNG, PGK should start strengthening against the USD from late 2024 picking up pace in 2025.

Figure 7. Foreign direct investment a key driver of PGK



Source: BPNG, Macrobond, ANZ Research

In the near term, we believe the market will remain in deficit. So we think the PGK will remain under selling pressure. While the currency has been static, trading at USD0.2840 since late February last year, we expect it to depreciate against the USD through to Q3 2023, albeit only a touch (Figure 8). After that, flows associated with large project works should restore the market to balance.

That said, if the Bank of Papua New Guinea intervenes more frequently and brings the market back to balance earlier than we anticipate, the downward pressure applied from scarce foreign currency will recede and the PGK could appreciate earlier.

Figure 8. PGK exchange rate forecasts (quarterly averages)

	Current*	Jun 23	Sep 23	Dec 23	Mar 24	Jun 24	Sep 24	Dec 24
PGK/USD	0.2840	0.2838	0.2835	0.2843	0.2870	0.2922	0.2989	0.3036
PGK/AUD	0.4288	0.4236	0.4089	0.3986	0.3986	0.4058	0.4113	0.4121
PGK/NZD	0.4618	0.4573	0.4453	0.4396	0.4415	0.4495	0.4598	0.4623
PGK/EUR	0.2568	0.2573	0.2546	0.2509	0.2488	0.2490	0.2505	0.2530
PGK/JPY	37.95	0.2838	0.2835	0.2843	0.2870	0.2922	0.2989	0.3036

Source: Bloomberg, BPNG, ANZ Research

* Current as of 2 May 2023



PNG: gross value added by industry sector

Year-ended December	% of GDP 2020	PGKm		Annual % change ⁽¹⁾				
		2020	2019	2020	2021e	2022f	2023f	2024f
Agriculture, forestry and fishing	16.6	10,588	2.3	1.9	4.6	2.5	3.9	2.9
Oil and gas extraction	20.4	12,961	15.1	-0.7	-7.0	2.7	-2.5	0.2
Mining and quarrying	9.5	6,016	5.3	-23.2	-19.4	12.9	29.3	1.2
Manufacturing	1.5	939	-0.6	-6.4	2.1	5.0	4.5	4.2
Construction	5.3	3,381	-8.6	-0.2	2.0	4.1	7.1	56.3
Wholesale and retail trade	8.8	5,610	1.5	-0.1	9.0	7.0	6.8	7.8
Transport and storage (warehousing)	1.8	1,163	3.6	-20.2	2.1	6.0	9.5	16.3
Finance and insurance	2.1	1,345	-4.6	-10.9	2.4	2.8	3.7	6.9
Real estate activities	5.9	3,775	2.7	2.6	2.6	3.3	4.1	6.3
Administration and support services	7.3	4,633	4.1	-0.8	1.0	2.0	4.5	8.6
Public admin and defence	5.3	3,370	0.5	8.9	2.0	6.1	3.7	2.8
Education	2.8	1,762	0.7	1.4	4.0	3.8	4.5	4.8
Others ⁽²⁾	8.7	5,538	5.6	1.8	6.8	6.0	6.4	8.0
Mining GVA ⁽³⁾	29.8	18,977	11.3	-9.2	-10.9	5.6	7.3	0.6
Non-mining GVA	66.2	42,104	1.4	0.3	4.3	4.2	5.3	10.1
Total GVA	96.0	61,081	4.5	-2.9	-0.5	4.6	5.8	7.4
Taxes less subsidies on products	4.0	2,552	5.0	-9.9	12.6	6.7	2.3	4.5
GDP	100	63,633	4.5	-3.2	0.1	4.7	5.6	6.8

1. Constant 2013 prices

2. Others include electricity, gas and air-conditioning; water supply and waste management; accommodation and food services; information and communication; professional and scientific; health and social work; and other services

3. Mining GVA is crude oil and gas extraction plus other mining

e: estimate, f: forecast



Country profile

Demographics	1990	2000	2010	2019
Population (million)	4.615	5.847	7.301	8.776
Population female (million)	2.267	2.875	3.581	4.296
Population male (million)	2.348	2.972	3.720	4.480
Population ages 15-64 (% of total)	55	57	58	61
Global links	1990	2000	2010	2020
Merchandise trade (% GDP)	74	92	65	61
External debt stocks – total (current prices in USDm)	2,594	2,325	5,987	18,740
Total debt service (% exports of goods, services and primary income)	37.2	12.9	13.3	20.1
Personal remittances received (USDm)	5	7	4	3
Net official development assistance received (USDm)	370.2	275.0	512.3	667.3



Long-term sovereign credit ratings	Rating	Outlook	Date
Moody's	B2	Stable	10 November 2022
Standard & Poor's	B-	Stable	24 May 2022

Corruption Perception Index, 2021	Score*
Western Europe & European Union	66
Asia and Pacific average	45
Papua New Guinea	31

*Scoring system: 100 highly clean, 0 highly corrupt
Source: World Bank, Moody's, S&P, International Monetary Fund, Transparency International

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