



PRESENTATION ON
MEDIUM TO LONG TERM PROSPECTS AND
OUTLOOK TO SUPPORT MTDP III

BY

GOVERNOR OF BANK OF PNG

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Outline of Presentation

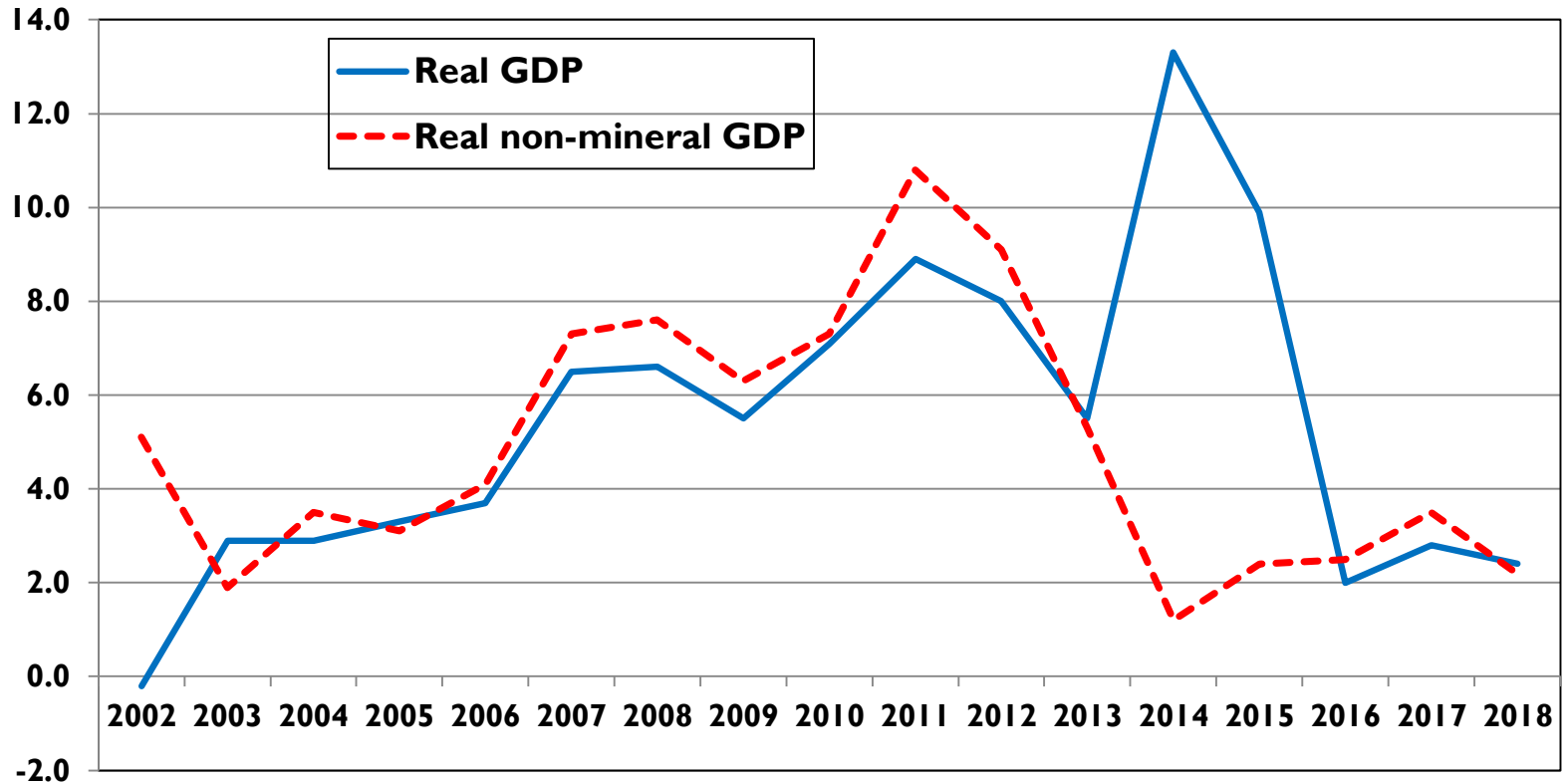
- Economic Performance
- Drivers of Economic Growth
- Medium Term Prospects
- BPNG's Initiatives for Inclusive Growth
- Measures to Support and Broaden Growth
- MTDP Progress Measurement Indicators
- Summary

PNG's Economic Performance

- PNG is a small open commodity based economy, rich in natural resources
- It is susceptible to movements in terms of trade associated mainly with price movements
- It has experienced continued growth for 15 consecutive years. Total average real GDP growth at 5.2 percent and non-mining at 4.8 percent. A very impressive and remarkable growth.
- Growth has been driven mainly by the mineral sector, however, its impact on the non-mineral sector is limited.

GDP Growth

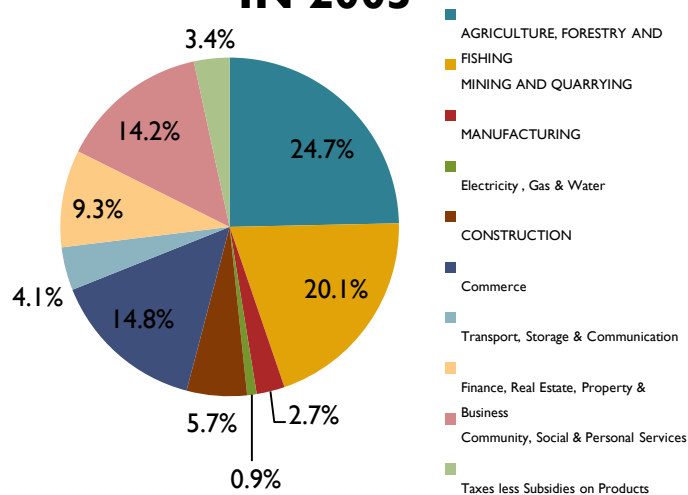
Total and Non-Mineral Real GDP (%)



- Between 2003-2012 the higher growth was driven by high commodity prices. Since 2013 prices have fallen significantly but the growth was supported by construction, production and export of LNG.
- The future outlook is positive with new extractive industry projects expected to come on stream

Overall Structure of the Economy

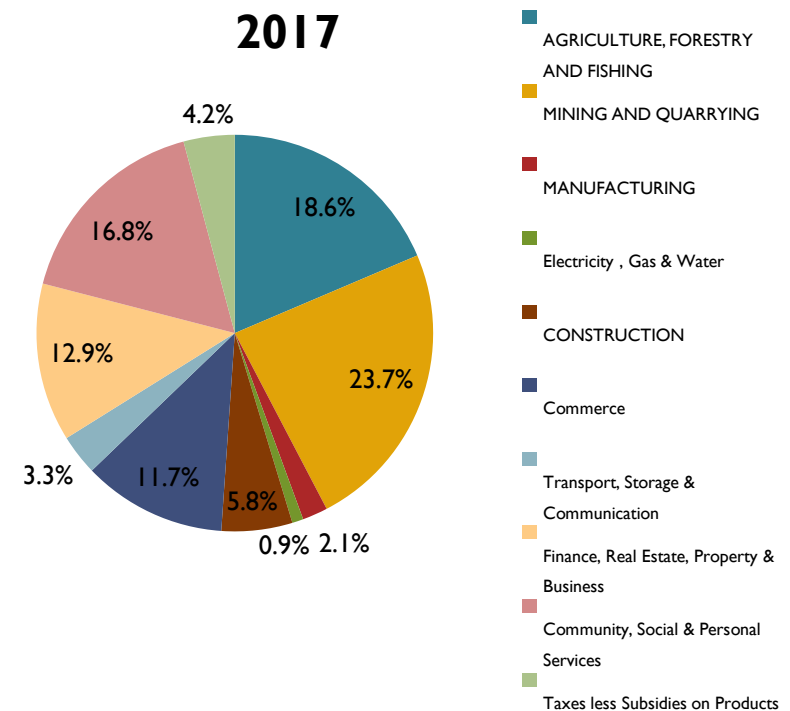
GDP COMPONENTS IN 2003



In 2003

- Dominant sectors were: agriculture/forestry/fisheries(24.7%); mining and oil(20.1%); commerce(14.8%)
- Others include community, social & personal services(14.2%) ; finance, real estate, property & business(9.3%); construction(5.7%)

GDP COMPONENTS IN 2017

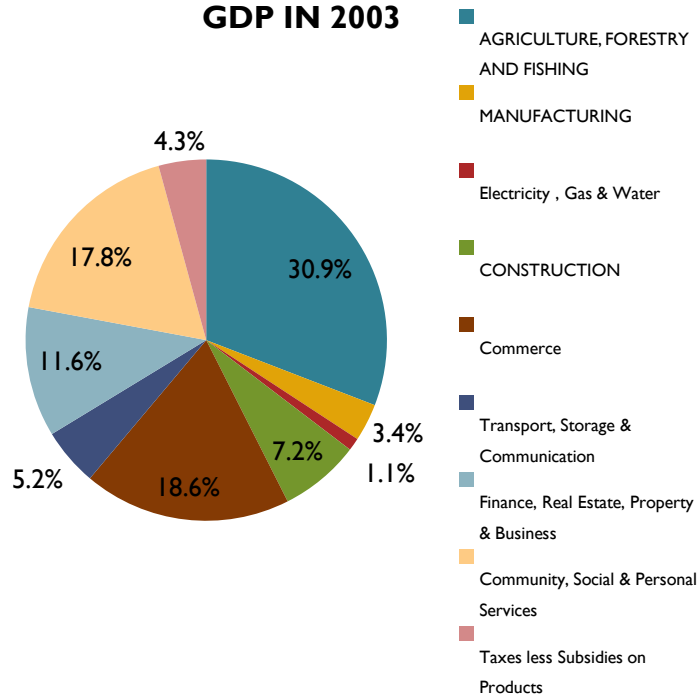


By 2017

- Agriculture/forestry/fisheries(18.6%); mining and oil(23.7%); commerce(11.7%)
- Others include community, social & personal services(16.8%); finance, real estate, property & business(12.9%); construction(5.8%)

Non-Mineral Structure of the Economy

NON-MINERAL COMPONENTS OF GDP IN 2003



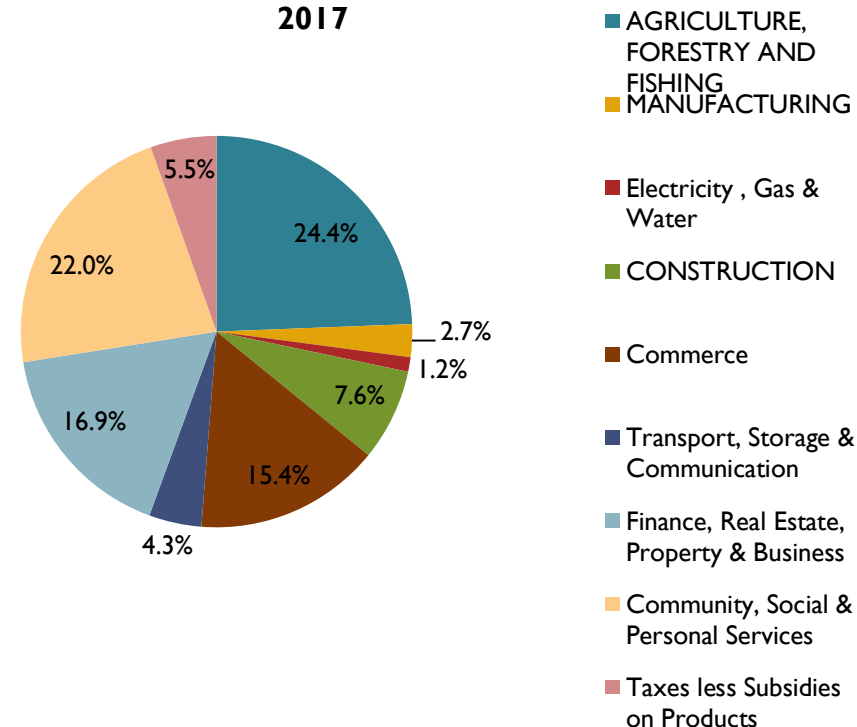
In 2003

- Dominant sectors were: agriculture/forestry/fisheries(30.9%); commerce(18.6%)
- Others include community, social & personal services(17.8%); finance, real estate, property & business(11.6%); construction(7.2%), taxes less subsidies on products (4.3%)

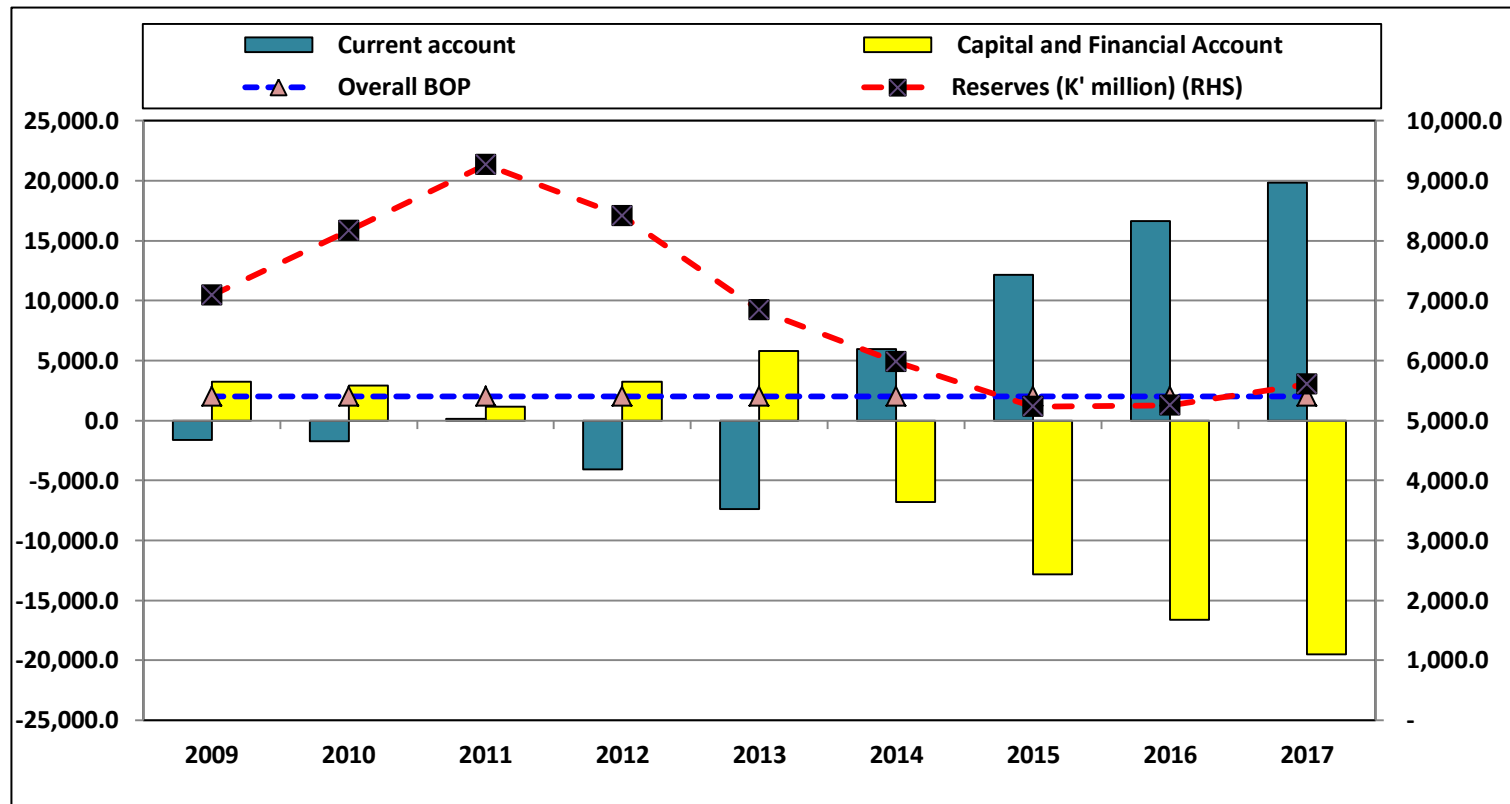
By 2017

- Agriculture/forestry/fisheries(24.4%); community, social & personal services (22.0%); finance, real estate, property & business(16.9%); commerce(15.4%)
- Others include construction (7.6%); taxes less subsidies on products (5.5%)

NON-MINERAL GDP COMPONENTS IN 2017



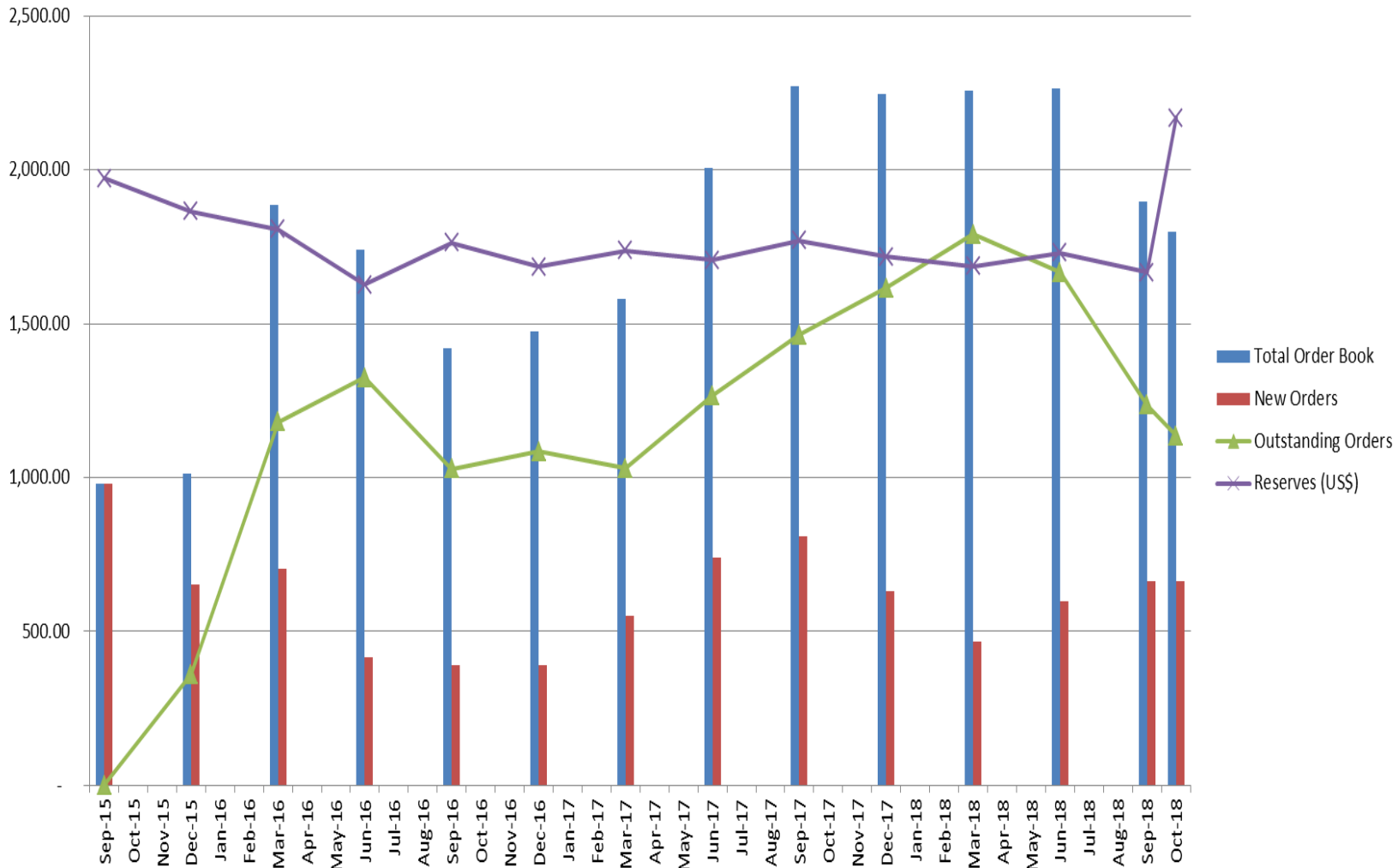
Balance of Payments (K' million)



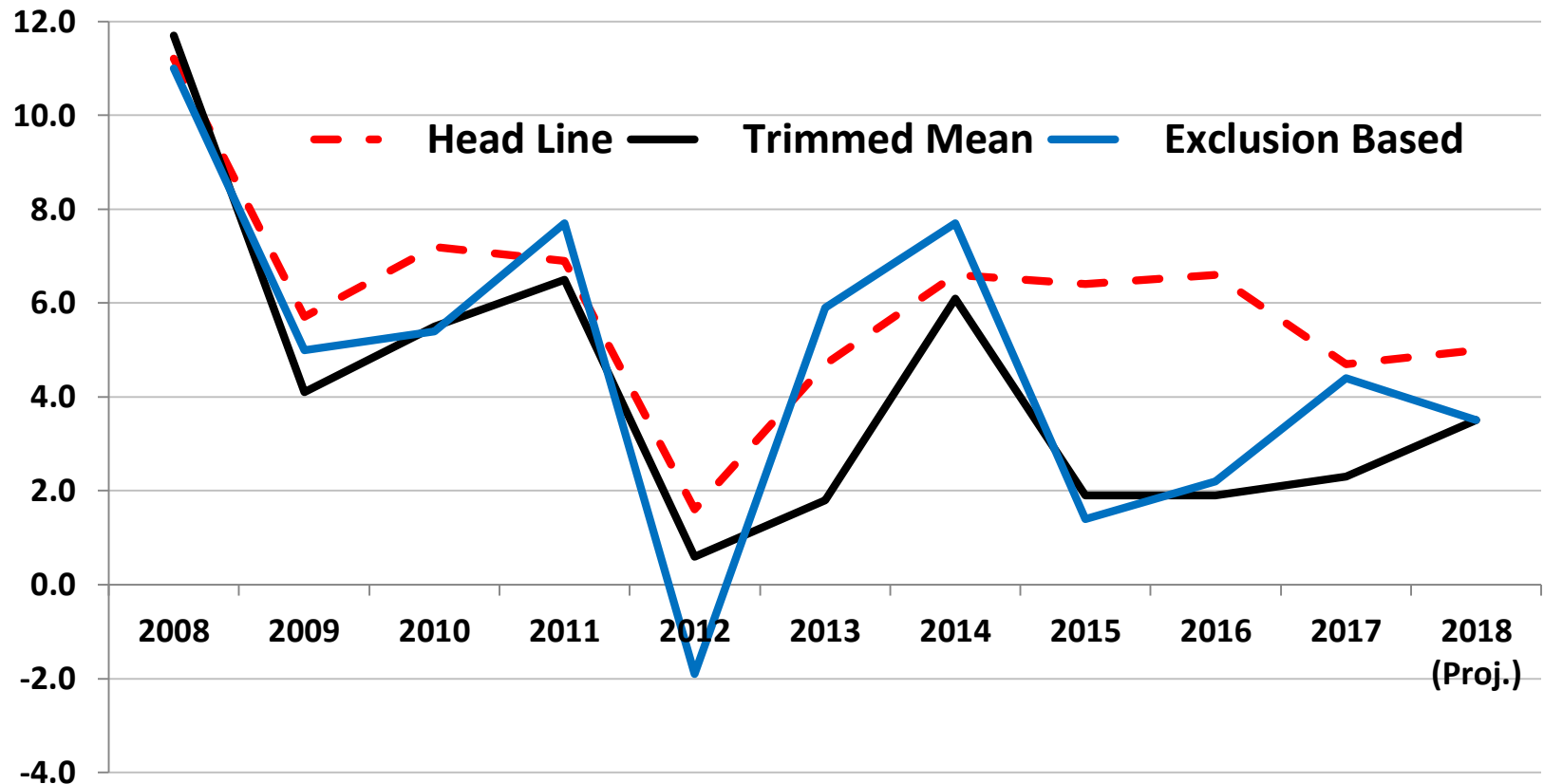
- Following start of LNG production and export in 2014, the surplus in the Current Account increased significantly by 233 percent between 2014 and 2017.
- Mineral exports receipts are held abroad to meet external obligations.
- Any surplus funds should be repatriated to support the domestic foreign exchange market.
- It is anticipated that by 2026 when the PNG-LNG Project debt is fully repaid, there will be increased revenues to the Government that will improve the overall reserves and Balance of Payments position.

Foreign Exchange Reserves

FOREIGN EXCHANGE RESERVES US\$ & FX ORDERS K'MIO



INFLATION (%)



- Inflation over the last 10 years averaged around 6.0% mainly influenced by low imported inflation, slow depreciation of kina exchange rate and competition resulting in lower prices.
- Headline inflation has been trending down since 2016 with a lower outcome of 4.7% in 2017 due to lower seasonal and imported prices.
- The medium term outlook on inflation is expected to be manageable.

Drivers of the Economic Growth

- Openness to international trade and investment
- Development of the mineral sector through fiscal and other concessions
- Expansionary Fiscal Policy of the Government through increased spending on key priority areas especially on infrastructure
- Significant investments in the mineral sector including LNG project
- Improved commodity prices and higher production and export volumes
- Various reform initiatives in the financial sector to strengthen the governance framework, including increasing the number of participants in the financial sector
- Opening up of the communication sector to competition and rolling out of financial services and products
- Easing of trade barriers by lowering of duties

Medium Term Prospects

- Economic outlook remains positive with expected extractive industry projects in the mineral sector to come on stream that will sustain growth.
- Government to implement strategic interventions and strategies to support investment in priority areas to broaden and diversify the economy to support inclusive and sustainable growth.
- Sound financial system and improvements in the international commodity prices will continue to support the stable macro economic conditions.
- Given these developments, growth is expected to continue into the medium term.

BPNG's Initiatives to support Growth

- The Bank is carrying out a number of initiatives which includes:
 - Financial inclusion program to get the unbanked into the banking and financial system;
 - Implementation of the Kina Automated System to improve the efficiency of the payment system, including reduction in the time required for clearing cheques; and
 - Roll out the Retail Electronic Payment systems to include the non-bank financial intermediaries in the KATS.

Measures to Support and Broaden Growth

- Further develop and broaden the financial market by creating a secondary market for securities trading, in collaboration with the PNG Securities Commission and other international institutions.
- Promote and adopt technological innovations such as Fintech to enhance capacity and delivery of services in a cost efficient manner.
- Further reforms to improve governance and transparency to strengthen the service delivery mechanism.
- Support the development of sustainable agriculture/forestry/fishery and tourism through increased funding and development of support infrastructure
- Promote Micro and Small to Medium Enterprises (MSMEs) through the development of supporting infrastructure such as marketing, financing, and insurance.
- Promote competition through further liberalisation and privatisation of energy, communication, and transport sectors

MTDP Progress Measurement Indicators

- Government to develop the national strategy for statistical development to collect and centralise all data and information with National Statistical Office to enable the Government to devise and implement policies and strategies.
- The Government should adopt measures to collect data and information to measure progress on the implementation of the Medium Term Development Plans

Summary

- PNG has been enjoying 15 years uninterrupted growth. This is expected to continue into the medium-term.
- Translating this growth into tangible benefits for the majority of the people who live in rural areas has been a challenge.
- The decline in the agriculture/forestry/fishery sector implies the shrinking of the export base and adverse impact on the other sectors. This is a concern and requires urgent Government attention.
- Measurement indicators should be adopted and progress tracked to enable the Government to devise and implement policies and strategies to improve the service delivery and to promote inclusive and sustainable growth and development.



End of Presentation

Thank you!