



MEDIUM TO LONG TERM PROSPECTS & OUTLOOK

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Governor-Bank of PNG**

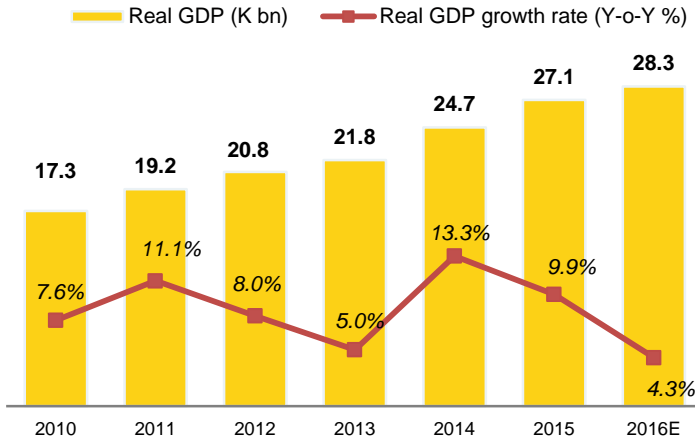
**National Development Forum
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Port Moresby**

Presentation Parts

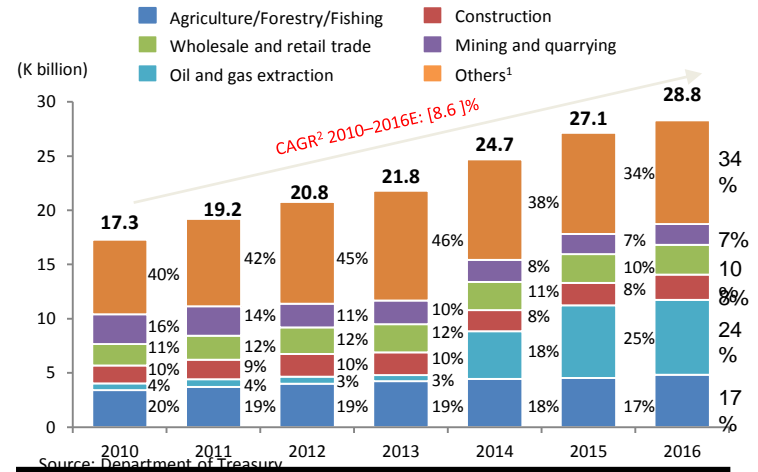
- Background of current financial and economic issues in PNG
- Short Term Issues & Challenges
- Medium to Long Term Prospects
- Conclusion

Robust economic growth track record

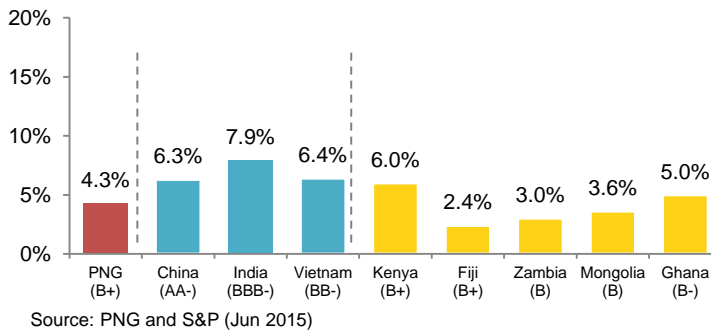
Strong GDP growth



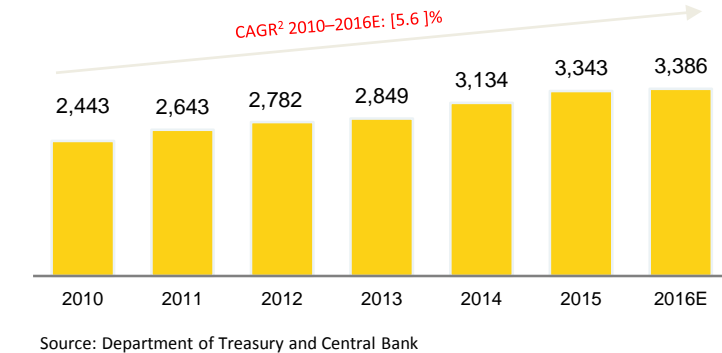
Real GDP by contribution (2010–2016E)



2016E real GDP growth vs. peers



Real GDP per capita



¹ Others include education, human health and social work, electricity, gas and air conditioning, manufacturing, water supply and waste management, finance and insurance, real estate activities, community social, personal services, transport and storage, public administration and defense, information and communication, accommodation and food services, administrative and support services, professional, scientific and technical activities, and other services;

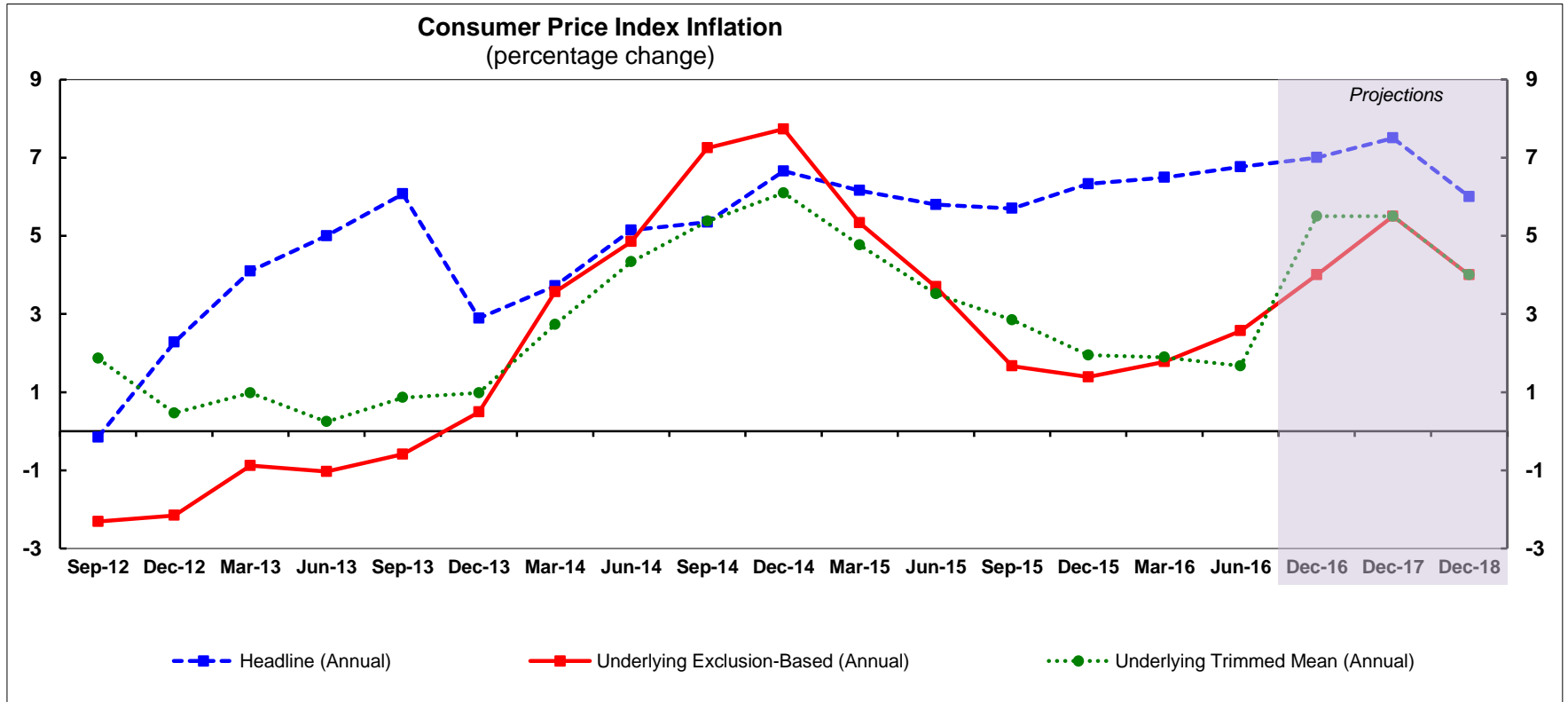
² CAGR: Compounded Annual Growth Rate

Short Term Issues & Challenges

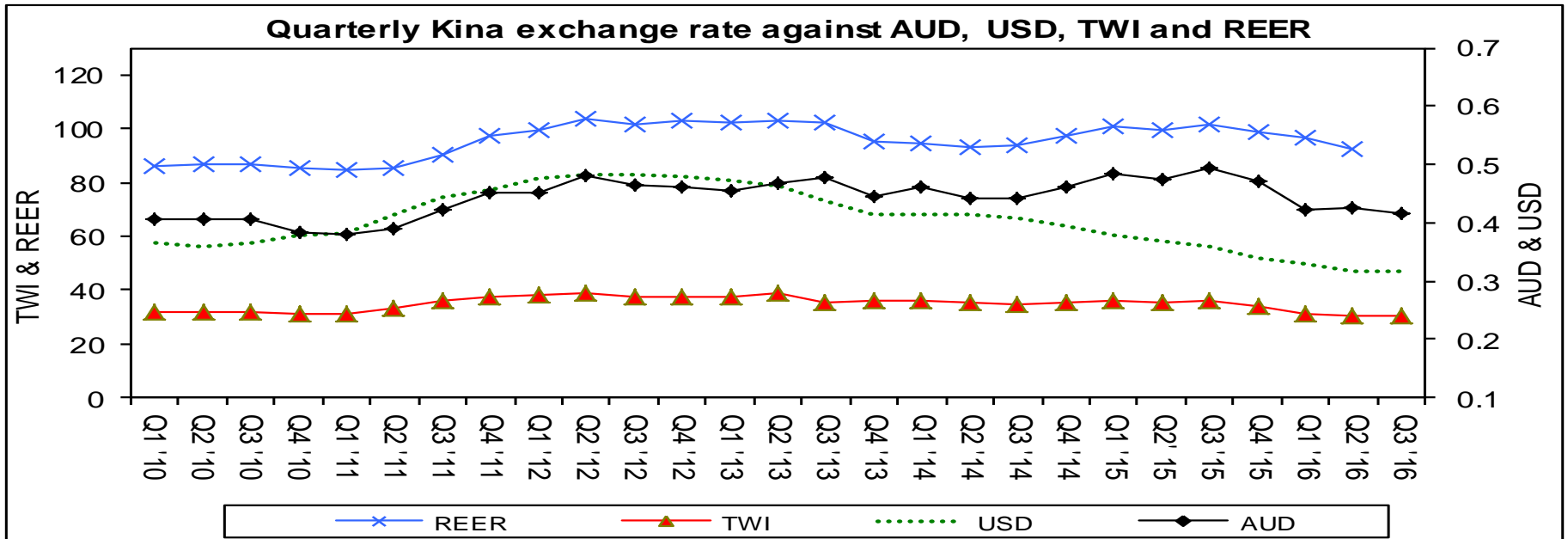
- Despite high economic growth, large budget deficits & Kina depreciation of around 36% between 2012 and October 2016, inflation remained low at manageable level.
- Exporters should have taken advantage of the kina depreciation & increased production/exports, thus increase FX inflows.
- Importers & consumers should have adjusted & resort to domestically produced goods/support local production, thus reduce FX demand.
- The Bank has to balance the foreign currency need of the Government, private sector demand and ensure maintenance of adequate level of foreign exchange reserves for the country to maintain confidence in economy.



Inflation



Kina Exchange Rate



Short Term Issues & Challenges

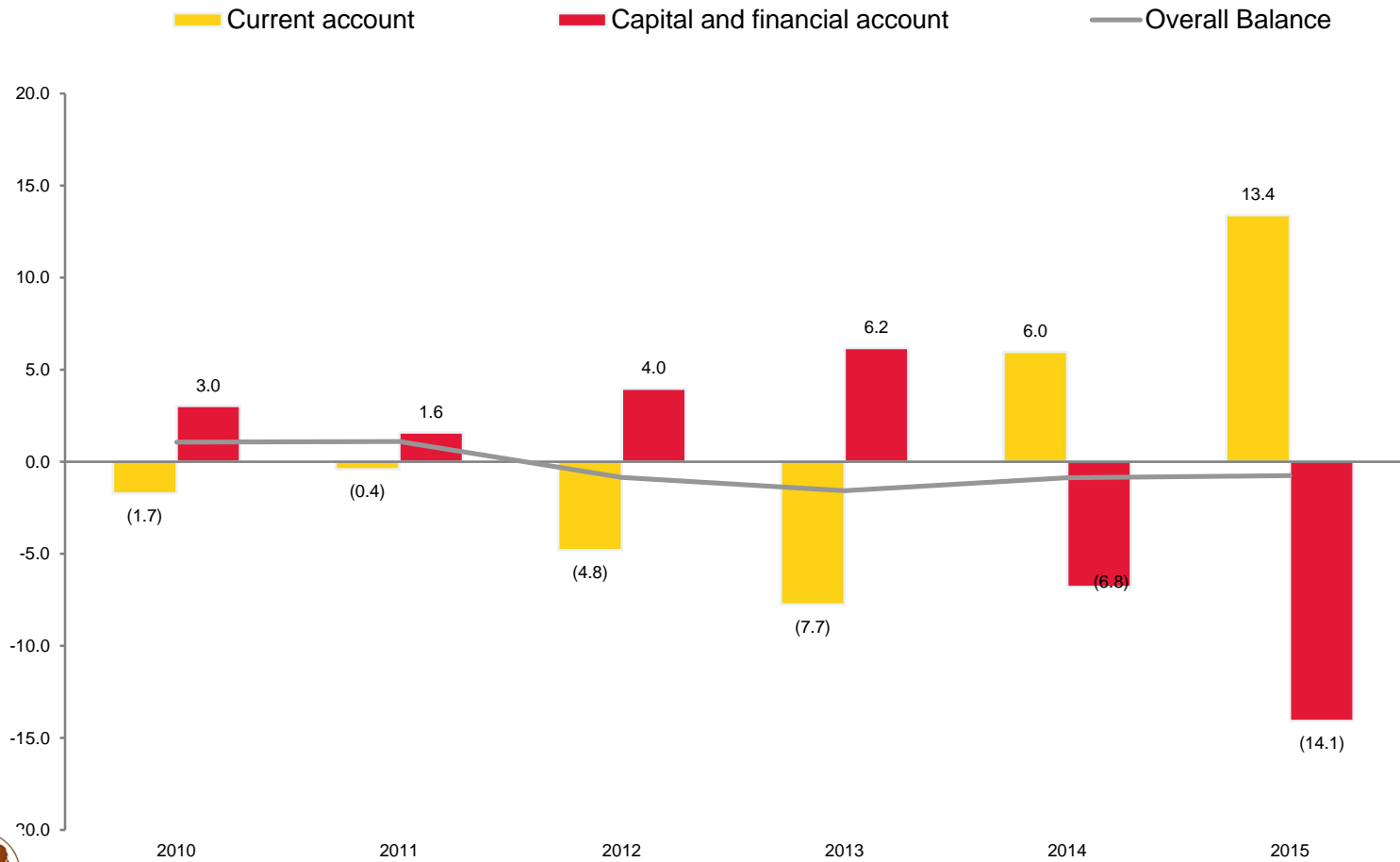
- Govt's plan to continue funding of priority sectors through deficit budget is clear.
- With low revenue coming from LNG project and decline in internal revenue from various sources, poses a challenge for budgetary financing for 2016 to 2018
- Govt needs to realise budgeted external financing given the fiscal space from low external debt stock & debt servicing
- The Government and the Bank are pursuing it.
- External financing will provide relief for domestic market as main source of borrowing



Short Term Issues & Challenges

- Current account surplus did not translate to Forex inflows, as mining & petroleum companies were allowed to keep export earnings in offshore accounts to meet overseas liabilities, under provisions for accelerated depreciation. Allowed under various Development Agreements.
- After the debt service and accelerated depreciation provisions for the PNG LNG project are over, capital account will move into surplus, translating into forex inflows through Govt taxes.

Balance of Payments



Short Term Issues & Challenges

- There will be a turn-around in the forex market, Government revenue will increase & growth in economic activity will increase.
- Start up of any pipeline projects (LNG & Mining) will provide relief to budget & forex situation and support economic growth.
- Recovery in export prices especially for non-mineral commodities will also support increased employment and economic growth.



Short Term Issues & Challenges

- Good inflows of foreign currencies by exporters
- Contributed by the resumption of Ok Tedi mine in March 2016, combined with Lihir's increasing production and exports, & inflows by other mineral companies.
- BPNG interventions & increased forex inflows was sufficient to clear genuine import & service payment orders . However, import orders still remain but reduced.
- New Foreign Exchange Directives issued on 30th Sept 2016.



New Forex Directives

- All holders of onshore FCAs have to reapply to BPNG by 28th October 2016
- All domestic lending in foreign currency such as trade finance have to be approved by BPNG in line with Regulation 6 of the Foreign Exchange Control Regulations
- Spot inflows should only be used to clear spot market orders, & not for forwards and foreign currency trade finance loans
- Directives do not mean a change in the Foreign Exchange (FE) Control regime.
- All the measures introduced since 2014 are to restore order and ensure a smooth & efficient functioning of the FX market, with transparent price setting and some protection for consumers.

MEDIUM TO LONG TERM PROSPECTS

- *NEXT SLIDES*



Medium to Long Term Prospects

- The PNG economy will continue to grow in real terms but at a lower pace (2% to 3%). Inflation projected to be in the range of 6 to 7%.
- Clear and direct focus by Govt on developing rural areas, infrastructure, education, health, agriculture, tourism & SME is the right strategy for PNG
- The Government is focussing on diversifying the economy to broaden revenue base & to achieve future sustainability of inclusive growth
- Large intergrated projects in agriculture sector & SME are encouraged. Good initiatives already led by Government and landowners.
- Providing access to innovative technology, financing & markets for agriculture, tourism & SME sectors would increase participation by population



Medium to Long Term Prospects

- Benefits from past & current investments in priority areas by Govt will be realised
- The non-mineral sectors have the potential for inclusive growth and employment opportunities
- Need appropriate trade and investment policies to help boost growth in the non-mineral sectors.
- Need improvements in public utilities & services sector to facilitate developments in the non-mineral sector
- Would reduce reliance on the non-renewable resources sector.

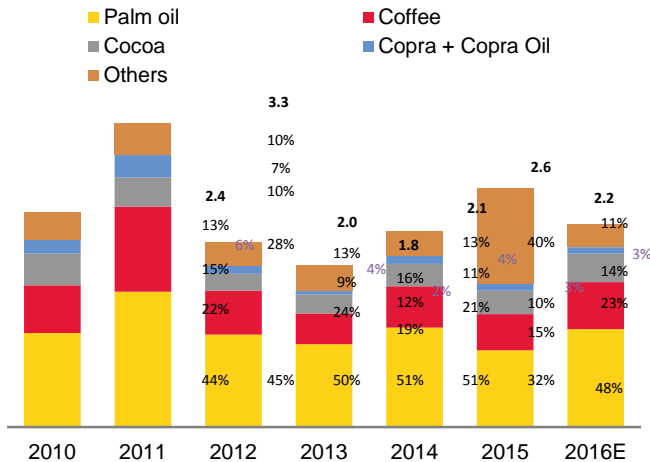


Unlocking the vast potential from the agriculture, forestry, and fisheries sectors

Agriculture

- Economic backbone for the past 70 years
- Huge growth potential with current low export base of K2bn (using only 3% of available agriculture land)

Agriculture export value (Kbn):



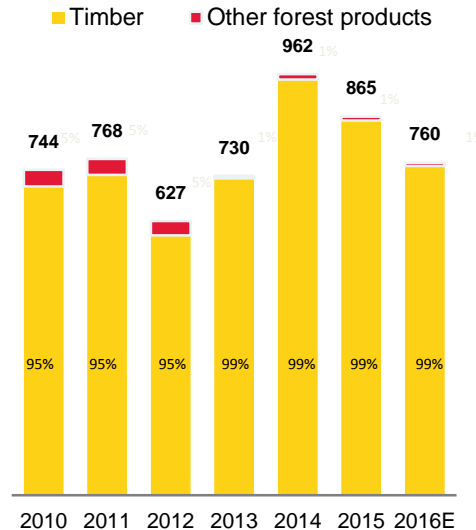
Note: Others include rubber, tea, and a very small portion of manufactured goods

Source: Central Bank and Department of Treasury

Forestry

- 29mm ha of forested land (63% of total land area)
- 15mm ha rich in timber species
- DSP 2010-2030 seeks to maximize sustainable benefits and minimize detrimental impact on environment

Forestry export value (Kmm):

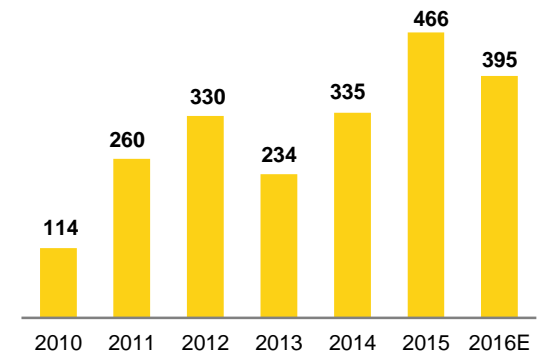


Note: Others forest products include timber, plywood, and woodchips

Fisheries

- Largest fisheries zone in South Pacific (2.4mm km)
- Harvest approximately 500,000–750,000 tons of fish & shellfish p.a.
- National Fisheries Development Plan promotes sustainable fishing and advancement of the sector
- Key exports destinations: EU, Japan, Philippines, Taiwan and Thailand

Fisheries export value (Kmm):



Unlocking to realize Import Substitution

- ◎ PNG's annual imports of agricultural products amounts to about K0.2 billion in 2015.
- ◎ The Government's plan to grow the domestic agriculture sector through initiatives that includes;
 - *reducing dependence on imports,*
 - *diversification and improvement to the infrastructure and*
 - *transmission of inputs to farms.*
- ◎ In addition, developing the manufacturing sector (eg: small industrial products) by supporting SMEs is positive.
- ◎ Over 80% of PNG's population are involved in subsistence agriculture & import substitution will;
 - *improve the livelihoods of the mass population & provide food security*
 - *help relieve PNG of its current FX pressure.*



Medium to Long Term Prospects

- Growth to be supported by pipeline of investment, including 2 major LNG projects-Penyang & Papua LNG, and 2 major mining projects-Wafi-Golpu & Frieda River Gold mines, which will have positive impact on the economy like the PNG LNG project did.
- Lessons learnt from extensive concessions given to extractive projects in non-renewable sector should be LIMITED in future.
- Use of SWF to save excess revenue from non-renewable resources developments for future use & generation



Medium to Long Term Prospects

- Some necessary infrastructures to enable inclusive growth already established include;
 - *Improved telecommunication*
 - *Strong & stable financial system*
 - *Improved National Payments System*
 - *AML initiatives*
- For wider benefit of our population, we need to reduce the proportion of our unbanked population (around 70% now) into modern financial services sector
- Great need for financial education & literacy of our population
- All these initiatives in place and in future should provide a platform for greater participation of our population to start a journey towards improved well being and prosperity by sharing in future economic growth of our country.

POSITIVE NEWS

- ◆ WHILE THERE ARE ISSUES & CHALLENGES WE FACE IN SHORT TERM, THE MEDIUM TO LONG TERM PROSPECTS AND OUTLOOK FOR THE ECONOMY ARE:

“POSITIVE & STRONG”

- ◆ THANKYOU.

