Economic Outlook for PNG-2016 & Beyond

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Business Summit
1-2 September 2016
BRISBANE, AUSTRALIA
Overview of Papua New Guinea (PNG) Economy

Overview

- China: ~4,900 km
- Japan: ~5,000 km
- Indonesia
- Papua New Guinea
- Australia: ~500 km

Key facts

- 2015 nominal GDP: K64,162mm (US$21.5bn)
- 2015 real GDP: K27,134mm (US$9.1bn)
- 2015 real GDP growth: 9.9%
- Area: 463,000 sq km
- Capital: Port Moresby
- Population: 8.1mm
- Currency: Kina (PGK) / US$1 = K3.16 (May 2016)

Key sectors of GDP (2015):

- Agriculture, forestry, and fishing: 17%
- Oil and gas: 25%
- Other minerals: 18%
- Construction: 8%
- Others: 51%

Key exports (2015):

- LNG: 43%
- Gold: 23%
- Other minerals: 18%

Real GDP growth

- 2010: 7.6%
- 2011: 11.1%
- 2012: 8.0%
- 2013: 4.9%
- 2014: 13.3%
- 2015: 9.9%
- 2016E: 4.3%

2016E real GDP growth vs. peers

Source: PNG and S&P (May 2016)

1 Others include education, human health and social work, electricity, gas and air conditioning, manufacturing, water supply and waste management, mining and quarrying, 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, wholesale and retail trade and other services.

2 Other minerals include copper, nickel, cobalt, crude oil, condensate and refined petroleum products.

KEY FACTS – Papua New Guinea

- Papua New Guinea is located in the South Pacific region, north of Australia and within close proximity to our key export markets of Australia, Japan and China.

- Papua New Guinea has a dual economy comprising a public- and corporate-based sector, and a large subsistence farming-based sector. Agriculture, forestry and fishing, oil & gas and construction are major components of our diversified GDP base.

- Papua New Guinea is rich in both renewable and non-renewable natural resources. These include extensive rain forests, a rich marine life, fertile soil for agriculture and significant reserves of gold, silver, copper, nickel, cobalt, other mineral deposits, crude oil and natural gas.

- The commercial development of natural resources has created a resources-based export economy and our main exports include LNG, gold, copper, silver, nickel and cobalt and other minerals and certain cash crops, oil palm, coffee, cocoa, forestry and marine products.

- We are currently enjoying our longest period of real GDP growth which is expected to continue in 2015 for 14 consecutive years since 2002.

- From 2007 to 2014, our average real GDP growth accelerated to 8.0%, more than double the population growth rate.

- Based on S&P data, we have one of the highest real GDP growth rates in 2015 compared to similar rated peers and higher than high growth economies such as China, India and Vietnam.
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
Diversified economic structure

By 2015
• Full year of LNG production and export - mining, oil & gas sector’s share increased to 29%
• Other traditional sectors – agriculture/forestry/fisheries, construction remain dominant

In 2010
• Dominant sectors are: mining, oil and gas; agriculture/forestry/fisheries; and construction
• Others include commerce, transport, manufacturing, finance
- Responsible fiscal management – supplementary budgets were introduced in 2014 and 2015 given the declining revenues from international commodity prices and El Nino drought effects
- Key priority areas of education, health, transport & infrastructure, law & order, and rural development in general were not affected
Increased Gov’t spending on key economic enablers (K’bn)

- Budget deficit spending put to good use – growing the economic base
- Largest allocation and spending was to the key priority sectors of economic & agriculture, education, health, transport & infrastructure, law & order, and rural development increased from K6.2 bn in 2011 to K7.6 bn in 2015
- Spending in these priority areas averaged 68.8% of the total budget over the five years 2011-2015
Total Gov’t debt in 2015 totalled K18 bn, increased to K19b in 2016.
Mainly domestic debt and around small component from external sources
External debt was all concessional, from ADB, World Bank, JICA, Australian Gov’t, etc.
Debt to GDP

- Prudent debt management by the Gov’t
- No breach of statutory borrowing limit (debt-to-GDP ratio of 35%) under the Fiscal Responsibility Act
- Highest ratio of 28% was reached in 2015
- Very low debt burden and negligible foreign debt burden
Prices, employment, and wages

Headline inflation rate

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation</td>
<td>4.4%</td>
<td>4.6%</td>
<td>5.0%</td>
<td>5.2%</td>
<td>6.0%</td>
</tr>
</tbody>
</table>

Source: National Statistical Office and Department of Treasury

Exchange rate

Kina per USD, Kina per AUD, Kina per EUR

Non-mineral and mineral employment

For the year ended December 31

<table>
<thead>
<tr>
<th>Year-on-year inflation (%)</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food and non-alcoholic beverages (34.9%)</td>
<td>(1.4)</td>
<td>(0.9)</td>
<td>4.8</td>
<td>4.9</td>
</tr>
<tr>
<td>Alcohol, tobacco and betel nut (7.9%)</td>
<td>69.3</td>
<td>43.8</td>
<td>4.6</td>
<td>12.1</td>
</tr>
<tr>
<td>Clothing and footwear (5.5%)</td>
<td>2.6</td>
<td>3.1</td>
<td>3.5</td>
<td>9.7</td>
</tr>
<tr>
<td>Housing (11.2%)</td>
<td>10.3</td>
<td>10.7</td>
<td>12.0</td>
<td>15.4</td>
</tr>
<tr>
<td>Household equipment (4.5%)</td>
<td>1.1</td>
<td>(0.2)</td>
<td>5.2</td>
<td>10.4</td>
</tr>
<tr>
<td>Transport (14.2%)</td>
<td>(0.5)</td>
<td>-</td>
<td>6.7</td>
<td>(3.7)</td>
</tr>
<tr>
<td>Communication (4.5%)</td>
<td>-</td>
<td>-</td>
<td>(5.6)</td>
<td>0.1</td>
</tr>
<tr>
<td>Health (2.7%)</td>
<td>3.2</td>
<td>5.6</td>
<td>13.3</td>
<td>17.2</td>
</tr>
<tr>
<td>Recreation (2.9%)</td>
<td>(4.4)</td>
<td>(3.1)</td>
<td>5.2</td>
<td>(0.7)</td>
</tr>
<tr>
<td>Education (7.4%)</td>
<td>0.2</td>
<td>0.4</td>
<td>(1.9)</td>
<td>-</td>
</tr>
<tr>
<td>Restaurants and hotels (2.6%)</td>
<td>8.5</td>
<td>7.2</td>
<td>6.1</td>
<td>5.1</td>
</tr>
<tr>
<td>Miscellaneous (1.5%)</td>
<td>(3.9)</td>
<td>(5.7)</td>
<td>4.5</td>
<td>(3.5)</td>
</tr>
<tr>
<td>All groups</td>
<td>4.6</td>
<td>5.0</td>
<td>5.2</td>
<td>6.0</td>
</tr>
</tbody>
</table>

Source: National Statistical Office
### Balance of Payments

<table>
<thead>
<tr>
<th>Year</th>
<th>Current account</th>
<th>Capital and financial account</th>
<th>Overall Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>(1.7)</td>
<td>3.0</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>(0.4)</td>
<td>1.6</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>(4.8)</td>
<td>4.0</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td></td>
<td>6.2</td>
<td>6.0</td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td>(6.8)</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td>(14.1)</td>
<td>13.4</td>
</tr>
</tbody>
</table>

The graph shows the balance of payments for the years 2010 to 2015, with a focus on the current account, capital and financial account, and the overall balance.
Highlights

- Despite deficit budgets, Kina depreciation of around 36% between 2012 and August 2016, and high economic growth, inflation remained low at manageable level.
- Current account surplus does not mean high Forex inflows, as mining & petroleum companies were allowed to keep export earnings in offshore accounts to meet overseas liabilities. Allowed under various Development Agreements.
- They bring in forex for local expenses, tax, royalties, levies and dividends.
- Kina depreciation reflects supply & demand conditions, which is typical of a floating exchange rate regime.
- Action in 2014 to impose trading margin of 75 basis points from mid rate was to apply discipline to market setting rate.
- Further action in 2015 on domestic foreign currency accounts.
Foreign reserves decline but Import cover increase
Foreign Exchange Reserves

- The Central Bank continued to support the foreign exchange market by supplying some foreign currency out of its reserves to meet some of the import demand by the private sector.
- From 2012 to date in 2016, the Central Bank has intervened by supplying US$2.4 billion in the foreign exchange market.
- With low Government external debt, the private sector has been the beneficiary of the forex intervention.
- Consequently, Reserves declined from US$4.0 billion at the end of 2012 to US$1.7 billion currently.
Short Term Issues – Budget Financing & Forex

- Govt’s plan to continue funding of priority sectors through deficit budget is clear.
- Without any revenue coming from LNG project and lower internal revenue from various sources, poses a challenge for budgetary financing for 2016 to 2018.
- Also challenge for management of forex reserves.
- Govt needs to realise budgeted external financing of the budget given the fiscal space from external debt stock & low debt servicing.
- The Government and the Bank are pursuing it.
- Provide relief for domestic market as main source of borrowing.
- Provide support for foreign exchange reserves & market.
Short Term Issues –Budget Financing & Forex

- Early this year we were asking “What are the prospects for improvement in the forex market?”
- There is a queue in the foreign currency market of non-served orders.
- Good inflows of foreign currencies by exporters
- The resumption of Ok Tedi mine in March 2016, combined with Lihir's increasing production and exports, & inflows by other mineral companies contributed.
- BPNG interventions & increased forex inflows was sufficient to clear genuine import & service payment orders
- The total non-served orders have not declined much.
Short Term Issues – Budget Financing & Forex

• After the debt service and accelerated depreciation provisions are catered for there will be more foreign exchange inflows from the LNG project.

• 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 will provide relief to current situation.
Short Term Issues – Budget Financing & Forex

• Need for exporters to take advantage of the kina depreciation to increase production and exports that would bring in the much needed foreign exchange.

• Importers & consumers to resort to domestically produced goods, reduce FX demand and support local production.

• 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.
MEDIUM TO LONG TERM PROSPECTS

• NEXT SLIDES
Large and established mineral sector with a track record of development with international partners

Overview

- Established mining sector governed by Mining Act 1992 and regulated by Mineral Resources Authority (“MRA”)
- Proven track record of over 40 years of development
- Key minerals are Gold, Silver, Copper, Nickel and Cobalt
- Projects are operated and financed by large MNCs

Large scale operating mines

<table>
<thead>
<tr>
<th>Mine</th>
<th>Metals</th>
<th>2015 Production ('000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ok Tedi¹</td>
<td>Gold, Copper, Silver</td>
<td>147 oz Au, 43 t Cu, 482 Ag</td>
</tr>
<tr>
<td>Porgera</td>
<td>Gold, Silver</td>
<td>591 oz Au, 109 Ag</td>
</tr>
<tr>
<td>Lihir</td>
<td>Gold</td>
<td>805 oz Au</td>
</tr>
<tr>
<td>Ramu</td>
<td>Nickel, Cobalt</td>
<td>26 t Ni, 3 t Co</td>
</tr>
<tr>
<td>Hidden Valley</td>
<td>Gold, Silver</td>
<td>161 oz Au, 1,836 oz Ag</td>
</tr>
</tbody>
</table>

Value of mineral exported (2010–2015E)

Source: Central Bank, Department of Treasury

Note: ¹ As a result of the El Niño weather phenomenon, operations at OK Tedi mine has been suspended until 1Q2016
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):

<table>
<thead>
<tr>
<th>Year</th>
<th>Palm oil</th>
<th>Coffee</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>2.4 13%</td>
<td>15% 44%</td>
<td>45% 22%</td>
</tr>
<tr>
<td>2011</td>
<td>2.0 13%</td>
<td>16% 50%</td>
<td>24% 51%</td>
</tr>
<tr>
<td>2012</td>
<td>2.1 13%</td>
<td>11% 51%</td>
<td>21% 51%</td>
</tr>
<tr>
<td>2013</td>
<td>2.6 11%</td>
<td>14% 32%</td>
<td>10% 32%</td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016E</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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):

<table>
<thead>
<tr>
<th>Year</th>
<th>Timber</th>
<th>Other forest products</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>744 99%</td>
<td>1%</td>
</tr>
<tr>
<td>2011</td>
<td>768 99%</td>
<td>1%</td>
</tr>
<tr>
<td>2012</td>
<td>627 99%</td>
<td>1%</td>
</tr>
<tr>
<td>2013</td>
<td>730 99%</td>
<td>1%</td>
</tr>
<tr>
<td>2014</td>
<td>962 100%</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>865 100%</td>
<td></td>
</tr>
<tr>
<td>2016E</td>
<td>760 100%</td>
<td></td>
</tr>
</tbody>
</table>

### 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):

<table>
<thead>
<tr>
<th>Year</th>
<th>Palm oil</th>
<th>Coffee</th>
<th>Cocoa</th>
<th>Copra + Copra Oil</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>44%</td>
<td>15%</td>
<td>6%</td>
<td>13%</td>
<td>50%</td>
</tr>
<tr>
<td>2011</td>
<td>50%</td>
<td>24%</td>
<td>12%</td>
<td>13%</td>
<td>51%</td>
</tr>
<tr>
<td>2012</td>
<td>51%</td>
<td>21%</td>
<td>10%</td>
<td>11%</td>
<td>51%</td>
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<td>11%</td>
<td>51%</td>
</tr>
<tr>
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<td>51%</td>
<td>20%</td>
<td>10%</td>
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<td>51%</td>
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<tr>
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<td>20%</td>
<td>10%</td>
<td>11%</td>
<td>51%</td>
</tr>
<tr>
<td>2016E</td>
<td>51%</td>
<td>20%</td>
<td>10%</td>
<td>11%</td>
<td>51%</td>
</tr>
</tbody>
</table>

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

Note: Others include rubber, tea, and a very small portion of manufactured goods
Source: Central Bank and Department of Treasury
Unlocking to realize Import Substitution

- PNG’s annual imports of agricultural products amounts to about PGK1.2 billion.
- The government, has put in place a 5-year plan to grow the domestic agriculture. The initiatives includes;
  - reducing dependence on imports,
  - diversification and improvement to the infrastructure and
  - transmission of inputs to farms.
- In addition, there is also a strong impetus to develop the manufacturing sector which currently contributes 3.0% to PNG’s real GDP by supporting SMEs.
- Over 80% of PNG’s population are involved in subsistence agriculture. Import substitution will;
  - improve the livelihoods of the mass population
  - help relieve PNG of its current FX pressure.
Medium to Long Term Prospects

- The PNG economy will continue to grow but at a lower pace (2% to 3%). Inflation projected to be in the range of 6 to 7%.
- Benefits from past & current investments in priority areas by Govt will be realised.
- Supported by pipeline of investment, including Penyang by ExxonMobil, Papua LNG by Total and Wafi-Golpu gold, which will have positive impact on the economy like the PNG LNG project did.
- Lessons learnt from concessions given to extractive projects in non-renewable sector should be LIMITED in future.
Medium to Long Term Prospects

- The non-mineral sectors have the potential for inclusive growth and employment opportunities.
- The Government is focusing on diversifying the economy by giving emphasis on sectors like agriculture, tourism and SME sectors.
- Large integrated projects in agriculture sector & SME are encouraged. Good initiatives already led by Government and landowners.
- Need appropriate trade and investment policies to help boost growth in the non-mineral sectors.
- Would reduce reliance on the non-renewable sector.
Prospects For Inclusive Growth

• Focus on developing rural areas, infrastructure, education, health, agriculture, tourism & SME by Govt is the start of path to achieving inclusive growth

• Providing access to innovative technology, financing & markets for agriculture & SME sectors would increased participation by population

• Need to get 80% of our unbanked population into modern financial services sector

• Great need for financial education of our population

• Continue financial inclusion and literacy strategy
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.