



BANK OF PAPUA NEW GUINEA

Update on the State of the PNG Economy

Address by

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at the 2014 CPA-PNG Conference

Growing the Local Economy, What is the Accountant's Role?

20 June, 2014, Kokopo

Opening Remark on Accountant's Role

Budgeting, accounting for revenue and expenditures, auditing for compliance, and establishment of financial positions at various points in time are crucial for sustainability of operations of various types of entities (including companies), that generates and sustains economic growth.



Outline

- Past and Current State of Developments - Key Indicators
- Prospects and future outlook
- Key Development Challenges and Issues
- Support to and opportunities for broad-based inclusive growth
- Accountant's Role



Sound Financial System

As At End of March 2014

- Total Assets K38.66 billion
 - Banking Sector K29.42 billion (76.1%)
 - Superannuation K 8.77 billion (22.7%)
 - Life Insurance K 0.47 billion (1.2%)
- Total Loans K12.2 billion
- Non-performing Loans 2.2% of total Loans and 0.9% of total assets
- Capital adequacy ratio well above the minimum requirement of 12%.



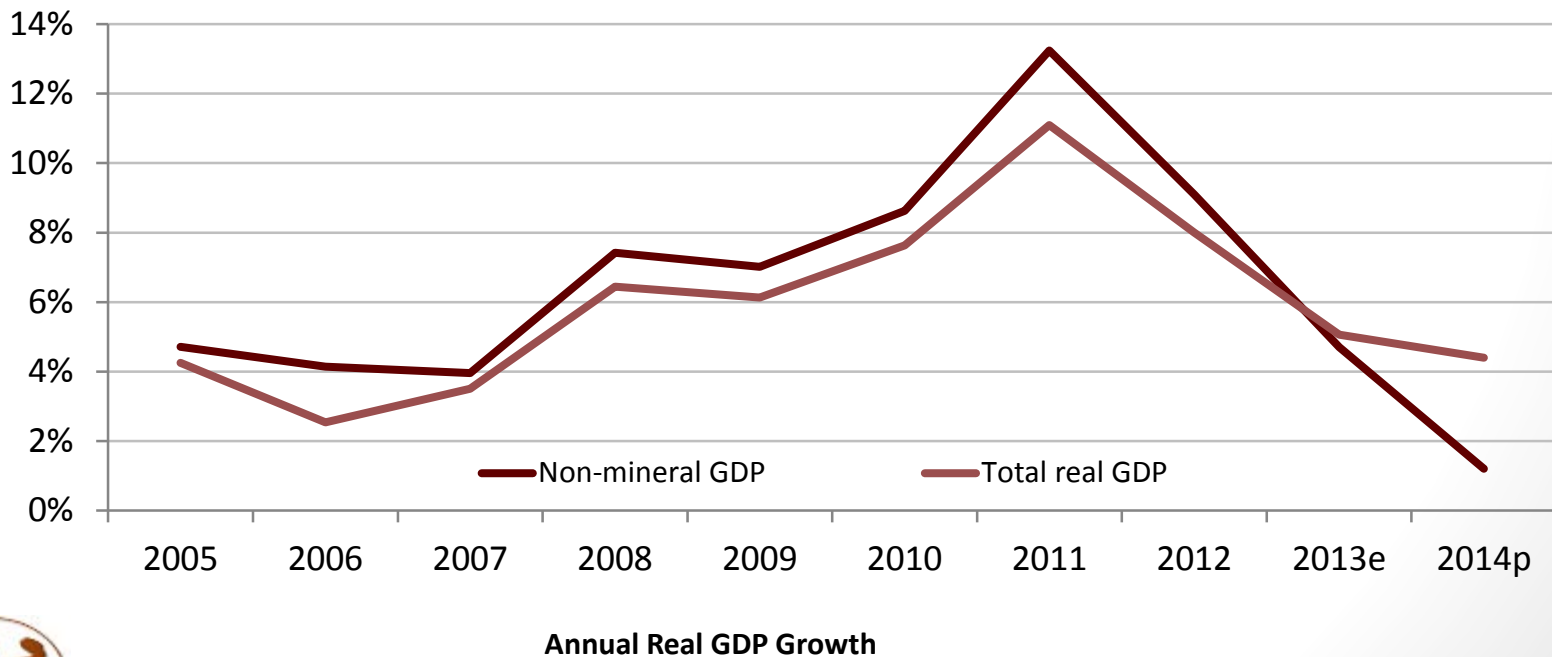
Past Economic Growth

- The real GDP growth in the five years 2002 to 2006 in real GDP was moderate, at 2.8 percent per annum, lower the population growth rate, and therefore the average standard of living of the population remained stagnant or even declined slightly.
- In the last seven years (from 2007 to 2012) the rate of real GDP growth was more than double the population growth rate at around 8.0 percent. On the average the per capita standard of living of the population increased, by around 5.1 percent per annum, or 35 percent during the seven years.
- For the twelve year period the annual growth in real GDP was 6.0 percent. It is a very strong performance by all comparisons and standards. 2014 will be another year of economic growth, not as strong as last year or when the construction phase of the LNG project was at its peak.
- It is interesting that, in the seven years to 2012, non-mineral GDP grew at a rate of 8.8 percent, faster than total GDP. The main reason for the stronger growth in the non-mineral GDP was the commencement of the construction of the LNG project in 2010 and the spin-off effects to benefiting sectors such as building & construction, transportation, hoteling-catering-other services, and manufacturing.
- Information available from different sources indicate that the high mineral and petroleum commodity prices , were the driving forces behind the very high Government revenue and the increase in public consumption, an increase in the level of foreign exchange reserves, high liquidity in the financial system and very low deposit interest rates.



Economic Developments: GDP

- Recent economic performance: stable political system, good economic policies, and PNG LNG project
- 2013: 13th year of uninterrupted economic growth
 - Slowing demand from PNG LNG
 - Fiscal stimulus



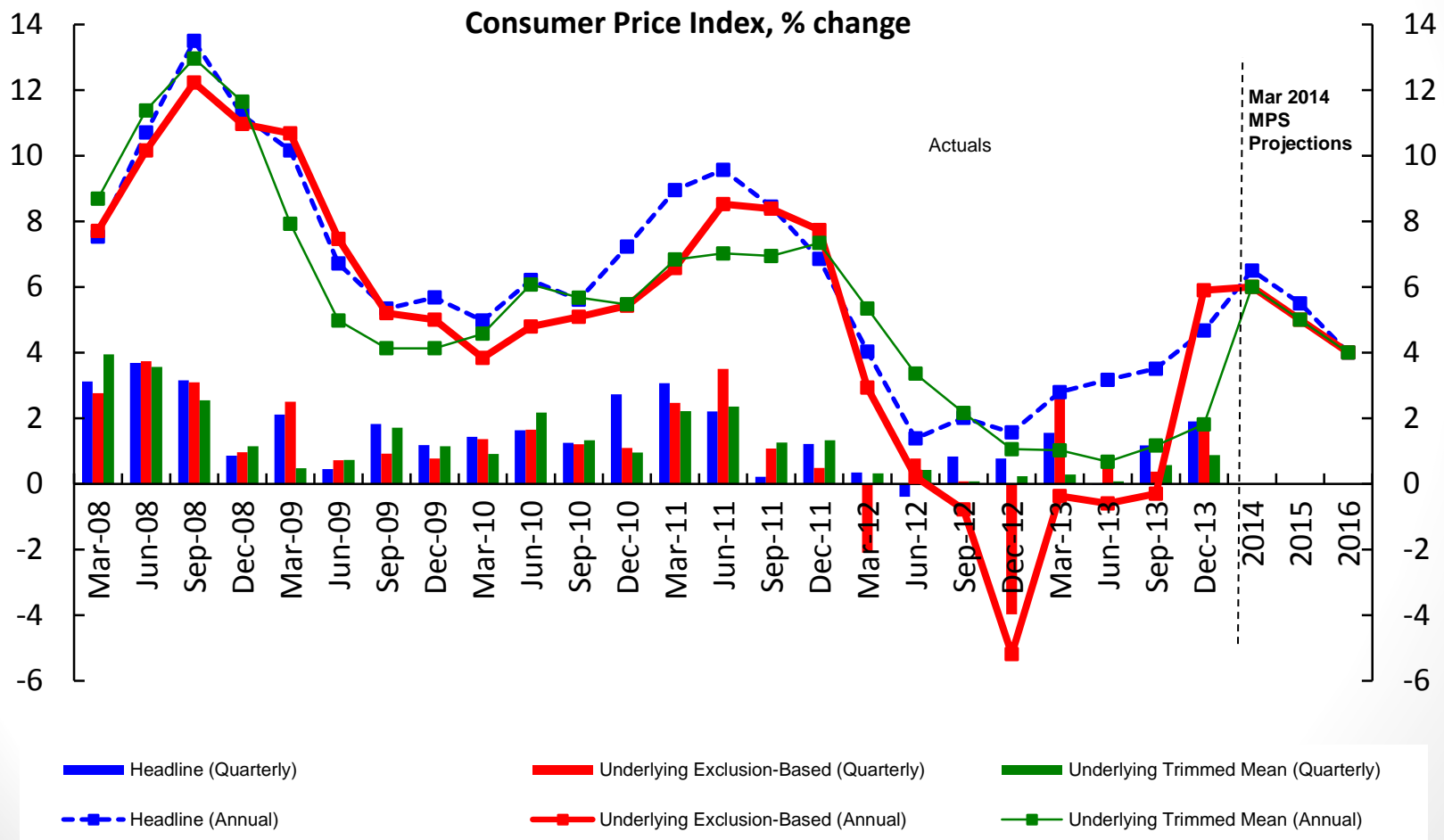
Economic Outlook: 2014 and beyond

- 2014 economic growth of 4.4%, driven by:
 - LNG production and exports
 - Fiscal stimulus
- Strong economic growth in 2015, return to pre-LNG trend growth
- Inflation: 6.5% in 2014, 5.5% in 2015 and 4% in 2016, assuming an improvement in commodity prices and stable inflation in PNG's trading partners

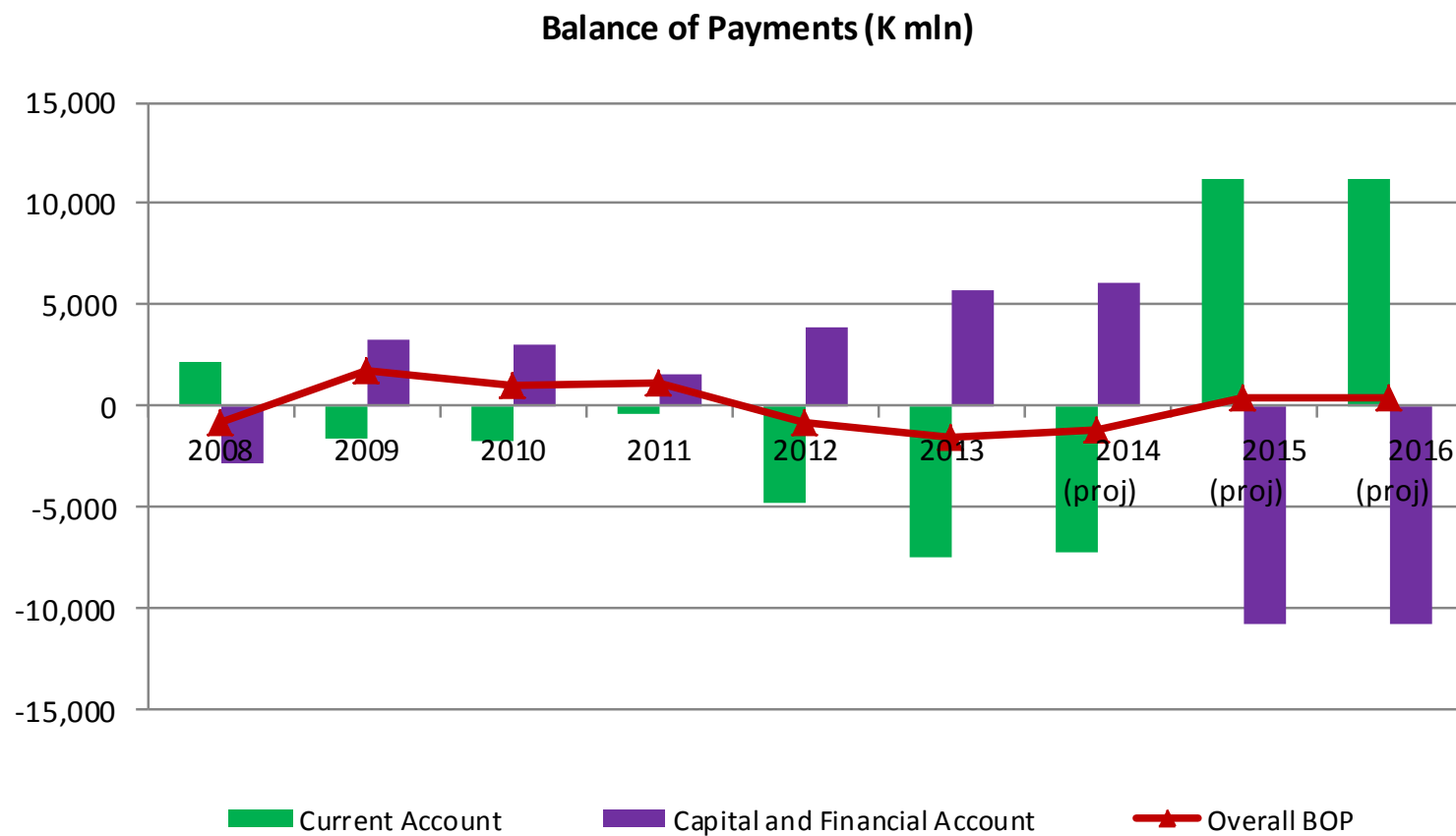


Economic Developments: Inflation

- Annual headline inflation of 4.7% in 2013.
- Annual headline forecast of 6.5% in 2014 and 5.5% in 2015.



Economic Developments: Balance of Payments



Source: Bank of PNG

Note: 2013 to 2015 includes flows related to the PNG LNG project, compared to the actuals, which do not include LNG figures.



Economic Developments: BOP & Exchange Rate

- In 2013, the Kina depreciated by 13% against the USD, but appreciated against the AUD by 1%
- In the interbank market, the Kina stabilised at US\$0.4130 since the last quarter of 2013, after the Central Bank excluded forward orders from the interbank market
- Commercial Banks trading outside of the mid-rate with excessive margins
- 2013 foreign exchange reserves was US\$2,854.7 (K6,912.1) million. By end of 2014, it is projected to be at US\$2,785.2 (K6,744.6) million



Fiscal Operations

	2011 Actual	2012 Actual	2013 (p)	2014 Budget	Mar-13	Mar-14
Total Receipts	9,304.9	9,566.0	9,832.7	12,688.5	1,786.4	2,004.3
Total Expenditure	9,370.6	10,943.9	12,852.4	15,041.5	2,190.3	1,899.1
Of which; Additional Priority Expenditure.	781.8	--	--	--	--	--
Deficit (-)/ Surplus (+)	-65.7	1,377.9	- 3,019.7	-2353.0	-403.9	105.2
% of nominal GDP	-0.2	-4.2	-7.8	-5.9	-1.1	0.3
External Financing	25.7	161.3	278.3	647.8	48.4	420.4
Net Concessional	88.9	214.8	329.8	703.5	55.6	450.8
Net Commercial	-19.4	-16.7	-14.1	-16.3	--	-16.3
Extraordinary Financing	-43.8	-36.8	-37.4	-39.4	-7.2	-14.1
Domestic Financing	40.0	1,216.6	2,741.4	1,705.2	355.5	-525.6
Financial Corporation Sector	-506.2	1,935.0	2,384.1	--	512.3	1,330.8
Bank of PNG	-883.3	1,244.0	-65.7	--	-475.8	229.2
Other Depository Corp	79.4	348.1	2,185.7	--	955.2	-40.8
Other Financial Corp	297.7	342.9	264.1	--	32.9	1,142.4
Public Non-Fin Corp	--	--	--	--	--	--
Other Resident Sectors	546.2	-718.4	357.3	1,705.2	-156.8	- 1,856.4
Total Financing	65.7	1,377.9	3,019.7	2,353.0	403.9	-105.2

Another Development Opportunity with LNG

- GDP will increase to unprecedented levels
- Generate annual income close to 30% of nominal GDP
- In 4-6 years, revenue inflows in terms of taxes, royalties and dividends will be very substantial and can significantly transform PNG
- Such opportunities come with many challenges and issues



LNG Implications

- GDP growth includes payments or income accruing to foreign factors of production, including foreign labour. What is relevant for PNG is the growth in GNP- payments or income accruing to domestic factors of production and the consequent potential for increases in public and private consumption within PNG.
- The LNG project will generate enormous exports from PNG and have a corresponding enormous effect on GDP. From PNG standpoint, this is largely irrelevant. The LNG exports are owned by foreigners. What is relevant is taxes and dividends that will be paid to the Government.
- How can the rural majority of the PNG population benefit from the LNG project? The answer lies in efficient and effective implementation of fiscal policy- the national budget, year after year, subject to the capacity issues in the delivery service mechanism. The Government and its civil service machinery must deliver and redistribute the revenue gain to improve basic health, education and infrastructure services to empower the people to be partners and not spectators in the development process.
- The preconditions to the achievement of any development agenda is- having a healthy, educated and productive population.



Key Development Challenges and Issues

- The 2013 & 2014 Budgets have the right development agenda: focusing on priority areas such as infrastructure, health, education and Law & Order
- Effective and efficient implementation of major infrastructure developments is key.
- Gov't must address capacity constraints faced by implementing agencies, including the Districts and LLGs
- Utilize skilled labour, surplus machineries & equipment and capital that are released from the LNG project



Key Development Challenges and Issues

- Building strategic infrastructure like roads enhances the development of agriculture sector and businesses.
- Develop renewable sectors such as Tourism and Agriculture by using new technological methods and innovations
- Diversify agriculture sector, including downstream processing & food production
- Broaden export base to build PNG's resilience to withstand external shocks and instability in export earnings.



Key Development Challenges and Issues

- Increase incomes of people, food production and security.
- These developments are expected to increase the future capacity of the country in sustaining economic growth and improvements in the welfare of its population.
- Need to pass legislation and set up Sovereign Wealth Fund (SWF) before LNG proceeds start to flow to the Gov't.
- This would assist in managing the LNG and other mineral revenues in a sustainable manner to help mitigate any *Dutch Disease effects* in years of significant foreign exchange inflows.



Private Sector Support and Opportunities

- **Financial Inclusion**

- Giving access to currently unbanked population to formal financial services
- Aiming to reach one million people by 2015, 50% women
- Increases economic participation and social inclusion, drives competition and market efficiency.
- Gives access to a larger consumer base, which for all investors, in any business, is a positive development.



Private Sector Support and Opportunities

- **Payments System**

- KATS facilitates real time settlement of transactions.
- Improves the financial infrastructure of the country, mitigates risks, increases efficiency, and reduces costs to both the Government and the private sector.
- Strengthens consumer and business confidence and supports the creation of an enabling environment for economic growth.



Accountant's Role

- What is the accountant's role in all the macro story and issues I covered?
- We hear so many times that the private sector is the engine of growth, agriculture sector is the backbone of the economy, and Government is the provider of public goods.
- In all these, budgeting, accounting for expenditures, auditing for compliance, and establishment of financial position at various points in time are crucial for sustainability of operations of various types of agents/entities (including companies).
- These are where accountants (broadly defined to include auditors and financial controllers) come in, these are the roles all of you gathering here at this conference play a part.



Accountant's Role

- You ensure a financial position of a company, government agent, an institution, etc, is established, showing where it has arrived and where it may go.
- You play a crucial role in navigating the path and ascertaining a point in the path of the journey of an entity towards its destination that economists perceive in their policy prescriptions and projections.
- The sustainability of operations in companies and entities in all fields of work generate the economic activity, employment growth, exports, imports, inflation, generate revenue for the Government, etc, etc, that economists talk about.
- Without your (accountant's) role, an entity would be like a blind person, not knowing where it is going.



Accountant's Role

- Accounting work brings out accountability, transparency and performance level of an entity. Individually, you as an accountant must be a good accountant in upholding your profession's work ethics and be honest, fair and accountable in your work.
- There can be accountants who manipulate numbers to suit certain dubious agendas. We want to avoid that.
- Be true to your profession in navigating and establishing the position on the path of economic growth and in aiding its sustenance.





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Thank you

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