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Poor start to 2018 – IMF says economic stagnation to continue in 2018

“The media in PNG can play a vital role in helping build democracy and hold the government to account. Unfortunately, the headlines in yesterday’s Post Courier were seriously misleading. As I’ve said before, the first step to get out of PNG’s difficulties is to be more honest. Although I would have loved the most recent IMF report on the PNG economy to say we were off to a great start, this is simply not true, its fake news!” said the Shadow Minister for Treasury and Finance, Ian Ling-Stuckey.

“Instead, the key message from the IMF is **“On unchanged fiscal and monetary policies, PNG faces several more years of economic stagnation, with a growing risk of a fiscal and financial crisis.”** This message was repeated in paragraphs 10 and 38. How is economic stagnation with growing risks of crisis a “great start” as claimed by the Gorethy Kenneth on the front page of the Post Courier? How is this saying the economy has turned the corner as claimed by the Prime Minister?” asked Mr Ling-Stuckey.

“The IMF positively acknowledges good elements of the 2017 Supplementary Budget, but things have gone backwards since then. The 2018 Budget went in the opposite direction of fixing the budget as recommended by the IMF with a massive fake increase in revenue allowing a blow-out in expenditure of K2 billion. In addition, not enough has been done to fix foreign exchange shortages and the crippling low level of credit for private sector business investment and home loans” said the Shadow Treasurer.

“How serious is the difference? The IMF’s recent report on the PNG economy said it would be K7 billion smaller in 2018 than claimed by the government (K73 billion vs the K80 billion figure included in the 2018 budget documents). This is an extraordinary difference which means much lower opportunities for business sales or job creation.

“The IMF said growth rates in the crucial area of the non-resource economy would only be 2.1% in 2018 not the 3.5% claimed by the government. The growth rate would then fall to 1.9% in 2019, just over half the 3.5% promised by the government.

“According to the World Bank, this would place PNG’s growth rate as the worst in the entire East Asia region, and below the rate of PNG’s population growth rate. Honestly, this is not a great start” said the Shadow Treasurer.

“A small increase in overall GDP growth from 2.2% to 2.4% is nothing to brag about. This is especially as both the government and the IMF says the growth rate will decrease in 2019. These growth rates are just too low to deliver the type of development needed by the people of PNG.

“As a key element of the Alternative Government’s policy platform, it commits to getting annual growth in the non-resource economy back to at least 5% again within 3 years of a change of government. Given all the capabilities of the PNG people, such a growth rate can be achieved.

Indeed, the National Alliance got PNG's growth rate to this higher and necessary level from 2004 to 2011" said Mr Ling-Stuckey.

"However, getting growth going again will require better policies. Of course the fall in international commodity prices and the drought hurt PNG, but the key problem now is the government's poor response to these external problems. Now, the IMF states "***The main impediment to private sector development is macroeconomic policies***" (para 33).

"As examples of how poorly the Abel 2018 Budget performed, the IMF estimates deficits will exceed 3% in both 2017 and 2018, higher than the 2.5% promised by the Treasurer in the 100 Day Plan and in the Budget. With the government having no credible plan to reduce the deficit, public debts will continue to increase.

"The IMF says the debt to GDP ratio will exceed the new maximum level of 35% in both 2017 and 2018 which is contrary to the Fiscal Responsibility Act.

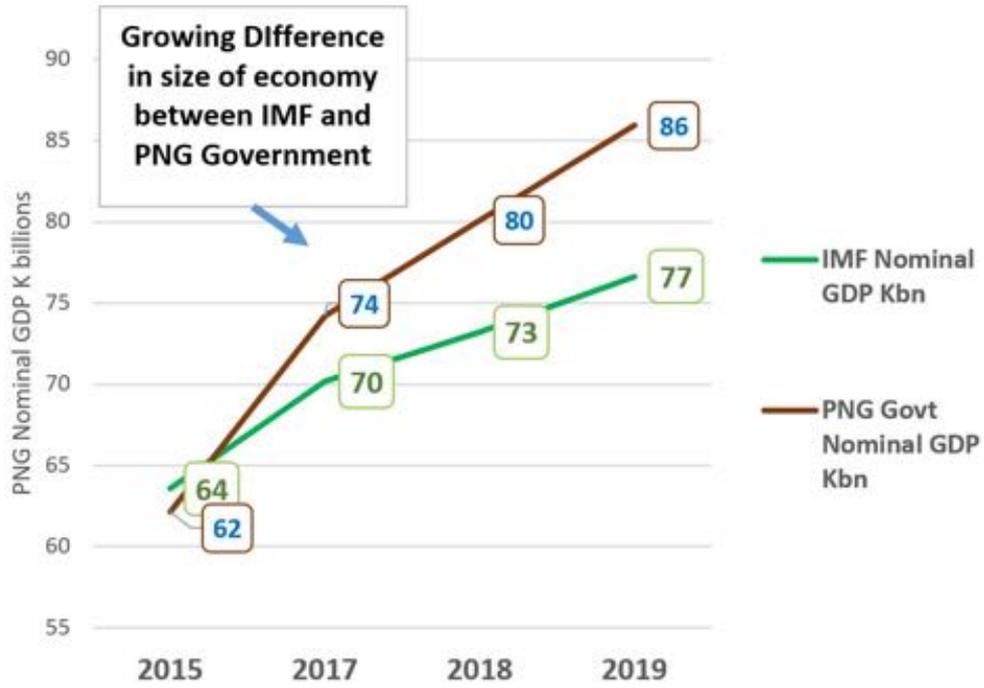
"Indeed, the IMF predicts the debt to GDP ratio will exceed 40% by 2020 (see Table 5 below). How can people trust Treasurer Abel's figures and promises?

"Unfortunately, this is a disappointing start to 2018. Let's admit this as the first step for actually doing the hard work required to get PNG back on track. PNG's government continues failing its people as 2018 begins. May there be an Alternative Government during 2018 to deliver true development opportunities to the people of PNG" said Mr Ling-Stuckey.

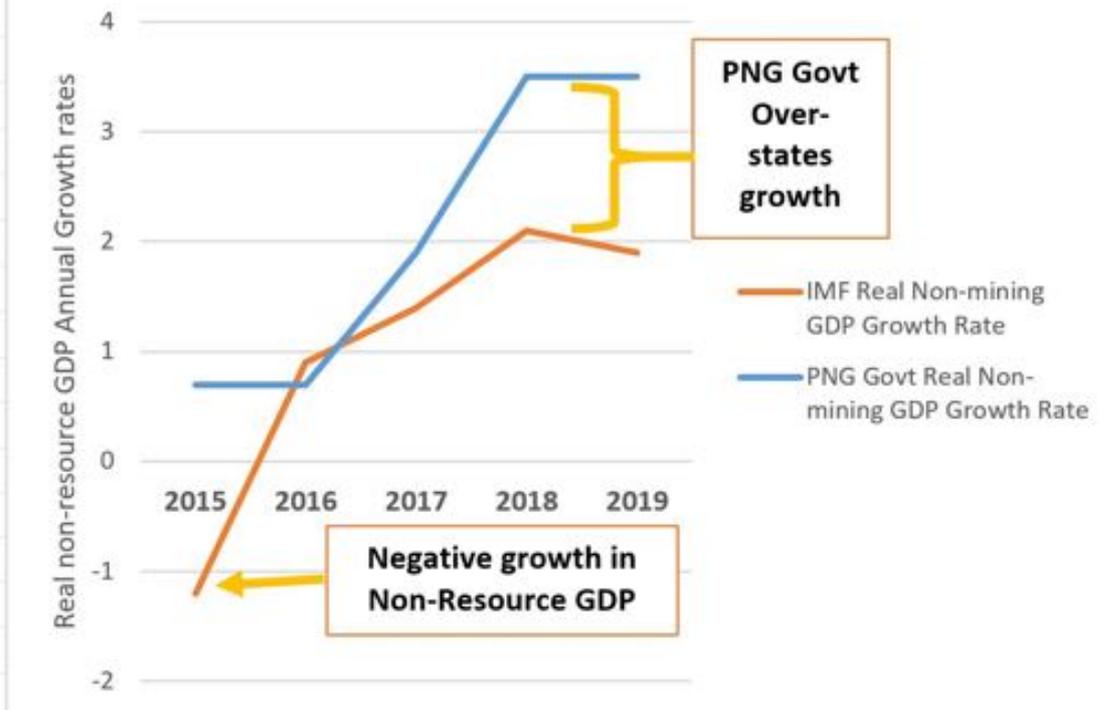
Hon.Ian Ling-Stuckey,CMG.MP
Shadow Minister for Treasury & Finance

3 January 2018

PNG Government Misleading on the Economy - By 2018 the Gap is K7 billion



IMF acknowledges 2015 recession and forecasts much lower non-resource growth rates



| | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|------|------|------|------|------|
| PNG Government | | | | | |
| Real GDP Growth Rate | 10.5 | 2 | 2.2 | 2.4 | 2.2 |
| PNG Govt Real Non-mining GDP Growth Rate | 0.7 | 0.7 | 1.9 | 3.5 | 3.5 |
| PNG Govt Nominal GDP Kbn | 62 | 68 | 74 | 80 | 86 |
| IMF | | | | | |
| Real GDP Growth Rate | 8 | 2.4 | 2.2 | 2.5 | 2.3 |
| IMF Real Non-mining GDP Growth Rate | -1.2 | 0.9 | 1.4 | 2.1 | 1.9 |
| IMF Nominal GDP Kbn | 64 | 67 | 70 | 73 | 77 |

Source: PNG Government Tables 9 and 15 of 2018 Budget 1; IMF 2017 Article IV report Table 5

Key Quotes from IMF Report

- 10. On unchanged fiscal and exchange rate policies, PNG faces several more years of economic stagnation, with a growing risk of a fiscal and financial crisis.
- 12. Macroeconomic policies need to adjust more decisively and systematically to an environment of lower commodity export earnings, and begin laying the foundations for stable, inclusive growth over the longer term.
- 15. Accelerate fiscal consolidation.
- 20. Increase exchange rate flexibility and promote external competitiveness.
- 32. Despite its natural wealth, PNG is poor; wealth and opportunity is unequally distributed; and women suffer from discrimination and high levels of domestic violence.
- 33. The main impediment to private sector development is macroeconomic policies.
- 38. On unchanged fiscal and monetary policies, PNG faces several more years of economic stagnation, with a growing risk of a fiscal and financial crisis.

Table 5. Papua New Guinea: Medium-Term Scenario, 2013–22

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|------|------|------|------|------|-------|------|------|------|------|
| | | | Est. | | | Proj. | | | | |
| Growth and prices (percentage change) | | | | | | | | | | |
| Real GDP 1/ | 3.8 | 12.5 | 8.0 | 2.4 | 2.2 | 2.5 | 2.3 | 2.9 | 3.2 | 3.1 |
| Resource | 5.1 | 71.5 | 43.2 | 6.4 | 4.4 | 3.5 | 1.2 | 3.2 | 3.2 | 3.2 |
| Nonresource | 3.6 | 3.3 | -3.2 | 0.9 | 1.4 | 2.1 | 1.9 | 2.8 | 3.2 | 3.0 |
| CPI (period average) | 5.0 | 5.2 | 6.0 | 6.7 | 5.0 | 2.6 | 2.5 | 2.5 | 2.4 | 2.4 |
| CPI (end-period) | 2.9 | 6.7 | 6.3 | 6.6 | 3.4 | 2.6 | 2.5 | 2.5 | 2.4 | 2.4 |
| Central government operations (in percent of GDP) | | | | | | | | | | |
| Total revenue and grants | 20.7 | 21.0 | 17.2 | 15.6 | 15.0 | 14.9 | 14.9 | 14.9 | 15.0 | 15.0 |
| Total revenue | 18.9 | 19.4 | 16.0 | 13.5 | 13.6 | 13.5 | 13.6 | 13.7 | 13.8 | 13.9 |
| Of which: Resource revenue | 1.4 | 2.3 | 1.0 | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Grants | 1.8 | 1.5 | 1.3 | 2.1 | 1.4 | 1.3 | 1.2 | 1.2 | 1.2 | 1.1 |
| Total expenditure | 27.6 | 27.3 | 23.2 | 20.2 | 18.2 | 18.0 | 18.4 | 18.3 | 18.4 | 18.4 |
| Expense | 24.6 | 21.9 | 19.0 | 19.2 | 17.5 | 16.8 | 16.6 | 16.2 | 16.3 | 16.3 |
| Net acquisition of nonfinancial assets | 3.0 | 5.3 | 2.2 | 1.0 | 0.7 | 1.2 | 1.9 | 2.1 | 2.2 | 2.2 |
| Primary balance | -5.8 | -4.7 | -2.3 | -2.7 | -1.1 | -1.0 | -1.3 | -1.0 | -1.0 | -0.9 |
| Nonresource net lending(+)/borrowing(-) (Revenue - expenditure) | -8.3 | -6.6 | -5.0 | -5.2 | -3.8 | -3.6 | -4.1 | -4.0 | -4.0 | -4.0 |
| Net lending(+)/borrowing(-) [Overall balance] | -6.9 | -6.3 | -4.0 | -4.6 | -3.2 | -3.1 | -3.6 | -3.4 | -3.4 | -3.4 |
| Nonresource primary balance (in percent of nonresource GDP) | -7.2 | -7.0 | -3.3 | -3.3 | -1.6 | -1.5 | -1.8 | -1.6 | -1.5 | -1.4 |
| Gross public debt (in percent of GDP) 2/ | | | | | | | | | | |
| Domestic | 24.9 | 27.1 | 28.9 | 33.3 | 35.4 | 37.0 | 38.7 | 40.3 | 41.6 | 42.9 |
| External | 18.5 | 20.9 | 21.9 | 24.4 | 26.3 | 26.7 | 27.9 | 29.8 | 32.4 | 34.2 |
| External | 6.4 | 6.2 | 7.1 | 8.9 | 9.1 | 10.2 | 10.8 | 10.4 | 9.2 | 8.7 |