



# SHADOW MINISTER FOR TREASURY & FINANCE

PO Parliament House

Waigani.NCD

m: +675 71111777

e: [chairman@kdda.gov.pg](mailto:chairman@kdda.gov.pg)

## BPNG needs to do more to lower interest rates

“One of truest statements in the latest Monetary Policy Statement by BPNG is ‘deposit rates continue to remain low however the lending rates remain high’. This is certainly the case when most people in PNG see that bank charges are greater than the poor interest rates on their accounts. This is also the experience of small businesses trying to borrow to invest yet finding interest costs are very high. Any serious “Medium-Term Development Plan” would aim to reduce this huge gap between interest rates on deposits and interest costs faced by SMEs.

Unfortunately, both the central bank and the government are silent on how to fix this critical problem” stated the Shadow Minister for Treasury & Finance Ian Ling-Stuckey.

“Why is it that the government is willing to pay international financiers an excessively high 8.375% yet PNG people get less than 2% on a standard deposit?” asked Mr Ling-Stuckey. “It is hard to avoid a sense that the people of PNG are getting ripped off.”

“High interest costs reduce investment by firms and can reduce growth. Fortunately, after several years where private sector credit growth (such as loans to SMEs and housing) couldn’t even keep up with inflation, private credit is expected to increase by 7.4% in 2018 relative to a fall of 3.4% in 2017. This would be welcome news. The projected fall in inflation from 5% to 4.5% is also welcome news.

“There is confusion about how PNG’s economy is travelling. In the latest Asian Development Bank development outlook released only on 24 September, PNG’s 2018 growth rate was revised down to 0.5% in 2018. This was because “damage from a February 2018 earthquake in PNG turned out to be worse than initially estimated”. In contrast, BPNG states that it expects the economy to grow “slightly above” the Treasury estimate of 1%. This is because of “higher than anticipated recovery in production of LNG following the earthquake in February 2018”. It is

difficult to reconcile these two contrary views. Sometimes I worry about the independence of BPNG. However, to be fair, BPNG predicts growth will slow down in 2020 to only 2%, only two-thirds of the Treasury forecast of 3%.

“BPNG is also calling for a different budget policy approach than used by the Treasurer. They are suggesting that any revenue windfalls (such as the revenue gains from the higher oil and LNG prices this year) should be used to reduce public debt. In contrast, the MYEFO decided to spend all of the K213.2 million claimed windfall revenue. This could become a significant issue for the 2019 Budget“ said the Shadow Treasurer.

“BPNG also needs to acknowledge its core role in creating the current foreign exchange shortages. When the last resource agreements were negotiated in 2008 and 2009, no one thought BPNG would take the country back to the 1990s by moving away from a freely convertible currency. If a currency is freely convertible, there is little incentive for resource companies to hold funds in off-shore accounts. The real problem was BPNG’s actions back in mid-2014 when it moved the Kina away from a freely convertible currency. Please stop blaming others when the underlying problem was created by BPNG in the first place – don’t get annoyed when there are inevitable consequences from poor actions.”

“One specific action that should be taken immediately by BPNG is to use its own foreign exchange windfall from the Sovereign Bond to eliminate the level of outstanding foreign exchange orders. There is welcome news that the reported level of outstanding orders has been reduced from K2.2 billion in March 2018 down to K1.7 billion currently. However, with K8.2 billion in reserves expected by the end of 2018, there clearly is scope to immediately reduce all of the outstanding orders. This would still leave a healthy K6.5 billion in reserves. The government continues to under-estimate how these foreign exchange shortages are crippling our local businesses” said Mr Ling-Stuckey.

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

3 October 2018

Statement from the 24 September Asian Development Bank Asian Development Outlook Update page 7 available at <https://www.adb.org/publications/asian-development-outlook-2018-update>

Growth in the Pacific has slumped because of weaker activity in Papua New Guinea (PNG) and Timor-Leste. Damage from a February 2018 earthquake in PNG turned out to be worse than initially estimated. Production of liquefied natural gas (LNG) for export in 2018 is expected to be at least 10% lower than in 2017. Meanwhile, a decrease in public

BPNG's Monetary Policy Statement on the other hand states

### Executive Summary

The higher than anticipated recovery in production of LNG following the earthquake in February 2018 along with improved prices and production of some of PNG's major export commodities contributed to ongoing economic activity during the first half of 2018. The improvement in the external sector resulted in relatively high inflows of foreign exchange. While recovery in the post-earthquake period has been noteworthy, it may not fully offset the downside impact. The Government therefore revised downwards its real Gross Domestic Product (GDP) growth forecast for 2018 to 1.0 percent from 2.4 percent. The Central Bank projects growth for 2018 to be slightly above Treasury's projection.

**There is also an interesting emerging gap between BPNG and the government on fiscal policy. Implicitly, BPNG is suggesting the government's claimed K213.2 million revenue windfall in the MYEFO should have gone into debt repayments rather than additional expenditure.**

foreign exchange. The Government in providing concessions to the extractive industries has contributed to the challenges of raising revenue to fund its expansionary fiscal policy. After realising these challenges and the financial and development risks associated with the increase in public debt, the Government is now implementing the MTFS 2018-2022 to rein in on expenditure and improve revenue collection. This has led to improvement in Government's fiscal position and cash-flow. As part of its fiscal consolidation, it should consider aligning expenditure with revenue, and reduce its public debt from any windfall revenue.

**There has been a welcome reduction in outstanding foreign exchange orders. However, with an expected K8.2 billion in reserves, BPNG should clear the backlog immediately.**

by the Central Bank, the time taken in serving import orders has declined. Total outstanding orders have declined from K2.2 billion in March 2018 to K1.7 billion at the end of August. The Central Bank will use the foreign exchange inflows from the external loans and mining and petroleum taxes to support the foreign exchange market and help clear the backlog of sell kina orders.

As at 30<sup>th</sup> June 2018, the level of gross foreign exchange reserves was US\$1,723.3 (K5,706.3) million, sufficient for 4.8 months of total and 8.3 months of non-mineral import covers. The level of foreign exchange reserves will be US\$2,476.7 (K8,200.9) million at the end of 2018. The increase reflects