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PNG's exchange rate – shooting the messenger

“The Treasurer is once again presenting a very rosy picture of PNG's exchange rate situation and attacking anyone who questions the government's spin. In an extraordinary attack on the Post Courier yesterday, the Treasurer once again failed to talk about how badly the foreign exchange shortages are being managed. The undisputable fact is that in April of this year, the ANZ stated that a “fair value” for the Kina was 0.23 to 0.25 – so some 15 to 22% below current levels of 0.30 USD to the Kina. Even the latest ANZ report indicated that the currency would be under pressure to continue going down for the next 18 months. So the Treasurer simply decides to ignore what PNG businesses know is actually happening, and instead talk of a “medium term” improvement. Once again, the people of PNG are being asked to wait, and wait and wait. They have already been waiting since 2014 when these policies started being mishandled. Frankly, the people of PNG are tired of waiting and seeing the PNC government try and undermine any critics saying more needs to be done” said Ian Ling-Stuckey, PNG's Shadow Minister for Treasury and Finance.

“The Treasurer also stated yesterday that “there has been a rebound in the national economy”. Once again, this is not the experiences of actual businesses and people in PNG. Are you also going to claim that GDP will reach K100 billion as the Prime Minister did earlier this year? Even the Treasurer's latest Budget Strategy Paper used a figure of K81.9 billion – some 20% less than the Prime Minister. But the PNG Treasury figure is likely at least another 10% overstated according to the preliminary results of the National Statistical Office. For 2015, the NSO estimates the economy was 10% less than the Treasurer's figures. Treasurer, if you are really interested in transparency of what is actually going on rather than medium-term crystal ball claims, when will you allow the National Statistical Office to release the actual figures on GDP for 2015 and 2016?” asked the Shadow Treasurer.

“One key issue the Treasurer constantly misunderstands is how PNG can actually become a competitive nation in the Asia-Pacific region and the role of the exchange in helping with this. We have all these APEC meetings going on with ideas about building better trading relationships and growth opportunities. However, the Treasurer continues to immediately look for rosy stories from his crystal ball based around new resource projects. This is risky. This could be making bad decisions in counting the chickens before the eggs are hatched. It could see PNG heading into another boom/bust cycle on our GDP growth rates, even as living standards for Papua New Guineans continue to decline. Treasurer, when will you talk about a better foreign exchange outlook driven by better agriculture policies, better tourism policies and better labour mobility possibilities? If you are actually keen on improving PNG's genuine growth projects, I strongly recommend you read another ANZ insight report titled “Bold Thinking: Imagining PNG in the Asian Century”. This useful report was written in 2013. Unfortunately, the national government has wasted 5 years in not engaging in bold thinking to move beyond a resource model of development”

“So what has brought about the more subdued language from the ANZ in September relative to April? Of course, any bank in PNG is subject to pressures to please customers, shareholders and the government of the day. For ultimately, it is the government that decides if ANZ can continue to operate in PNG. Unfortunately, the PNC has been known to use a big stick over companies to get them to toe the government line. When ANZ came out with such frank language back in April, similar to that of academics and international credit rating agencies, I did wonder what phone calls might have been made. PNG needs more honesty from its Treasurer rather than simply continuing to attack the messenger as it did to the Post Courier on 26 September” said Mr Ling-Stuckey

“Once again, this government seems to continue burying any facts that confirm its economic mismanagement, it continues to talk of good times ahead while the people of PNG continue to suffer and wait, it continues to muffle any critics, and it fails to take the hard steps necessary to get inclusive growth going in this country. PNG needs a restructured government with a better mix of coalition partners that have a proven track record to manage the economy and the alternative government is willing to provide competent advice” said the Shadow Treasurer.

26 September 2018

Detailed Background

Direct quotes from ANZ article of 20 April 2018 including a summary diagram on foreign currency and the exchange rate available at [“PNG is on the cusp of a super cycle in mining investment”](#).

“Recently released ANZ research expects growth to remain subdued in 2018 and 2019 as the benefits of the LNG expansion diminishes and as non-mining sectors struggle owing to an overvalued currency and foreign exchange shortages.

“Meanwhile, the Kina remains an overvalued currency and better macro balance could be achieved if faster depreciation occurred.

“The currency’s fair value on our estimate is around \$US0.23-0.25.

“At this level, the Kina would likely remove uncertainty in the foreign exchange market, add liquidity and help clear the backlog of import orders, maximise import substitution and assist Kina-exposed industries including agriculture and mining.

Dr Kishti Sen is an international economist at ANZ

FOREIGN CURRENCY



- A large backlog of import orders has resulted in excess capacity, cash flow problems and low business confidence.
- Non-mining business investment is very weak as a result.

EXCHANGE RATE



- Kina remains an overvalued currency - contributing to build-up of import demand.
- A fall toward its fair value of USD0.23 could bring benefits.

Acting Prime Minister and Treasurer, Charles Abel, says the recent 'ANZ Pacific Insight Report on PNG FX Insight 2018' has been misrepresented by the Opposition.

He further said one of the dailies also ran a misleading headline.

Abel instead says the Government welcomes the report, which confirms that the medium term outlook for the Kina is positive.

In a statement, the Acting Prime Minister said after challenging years there is a rebound in the national economy.

2013 ANZ Insight Report – this includes some good ideas, especially around growing agri-business.

