



**Bank of Papua New Guinea**

**Presentation to the  
CIMC National Development Forum**

***“ECONOMIC OUTLOOK FOR 2011-2015”***

**by  
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Bank of Papua New Guinea**

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**State Function Room, Parliament House, Port Moresby**



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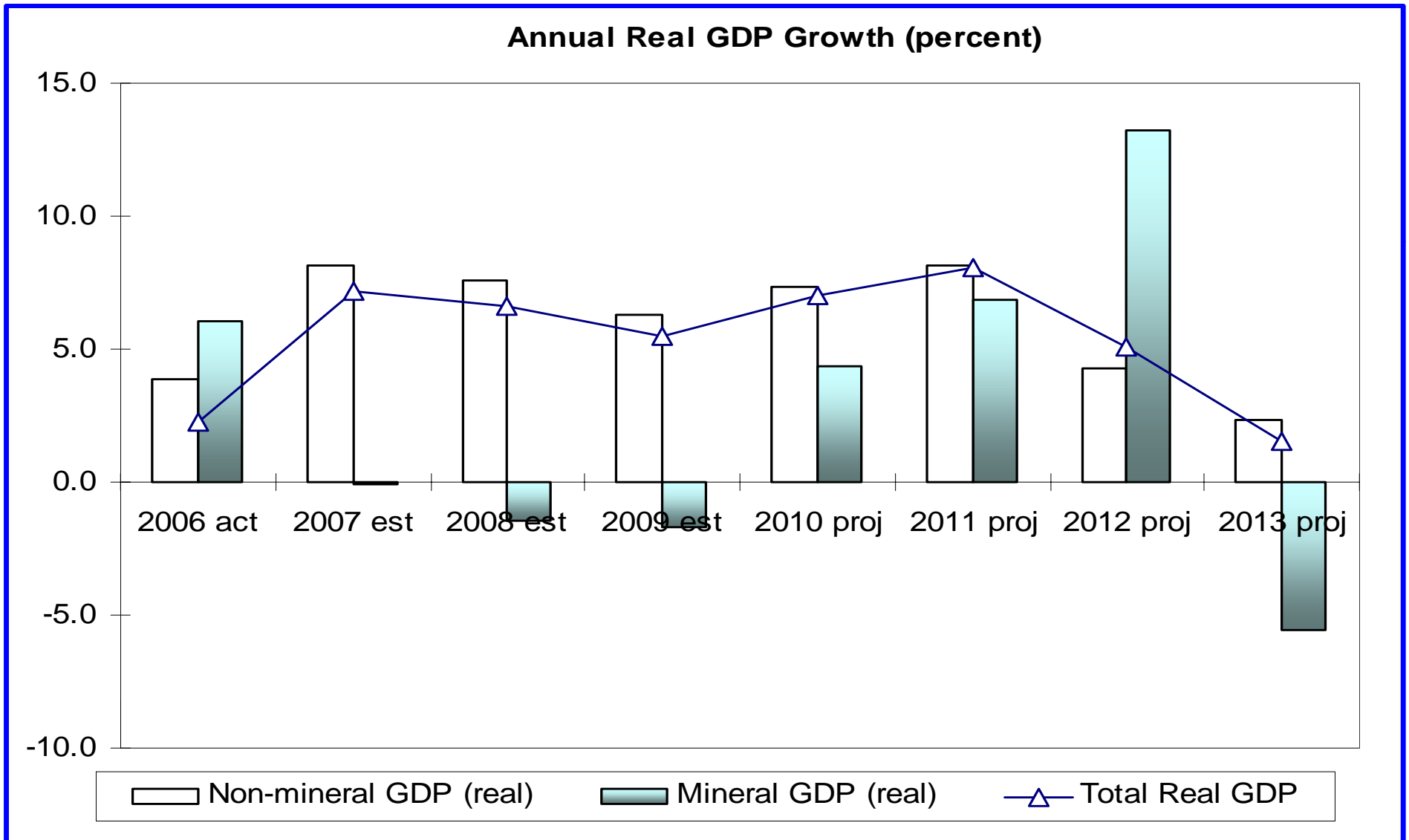
# Outline of Presentation

1. Economic Prospects: 2011-2014
2. Good Economic Management
3. Combating the 'Dutch Disease'
4. Initiatives of the Central Bank
5. Conclusion



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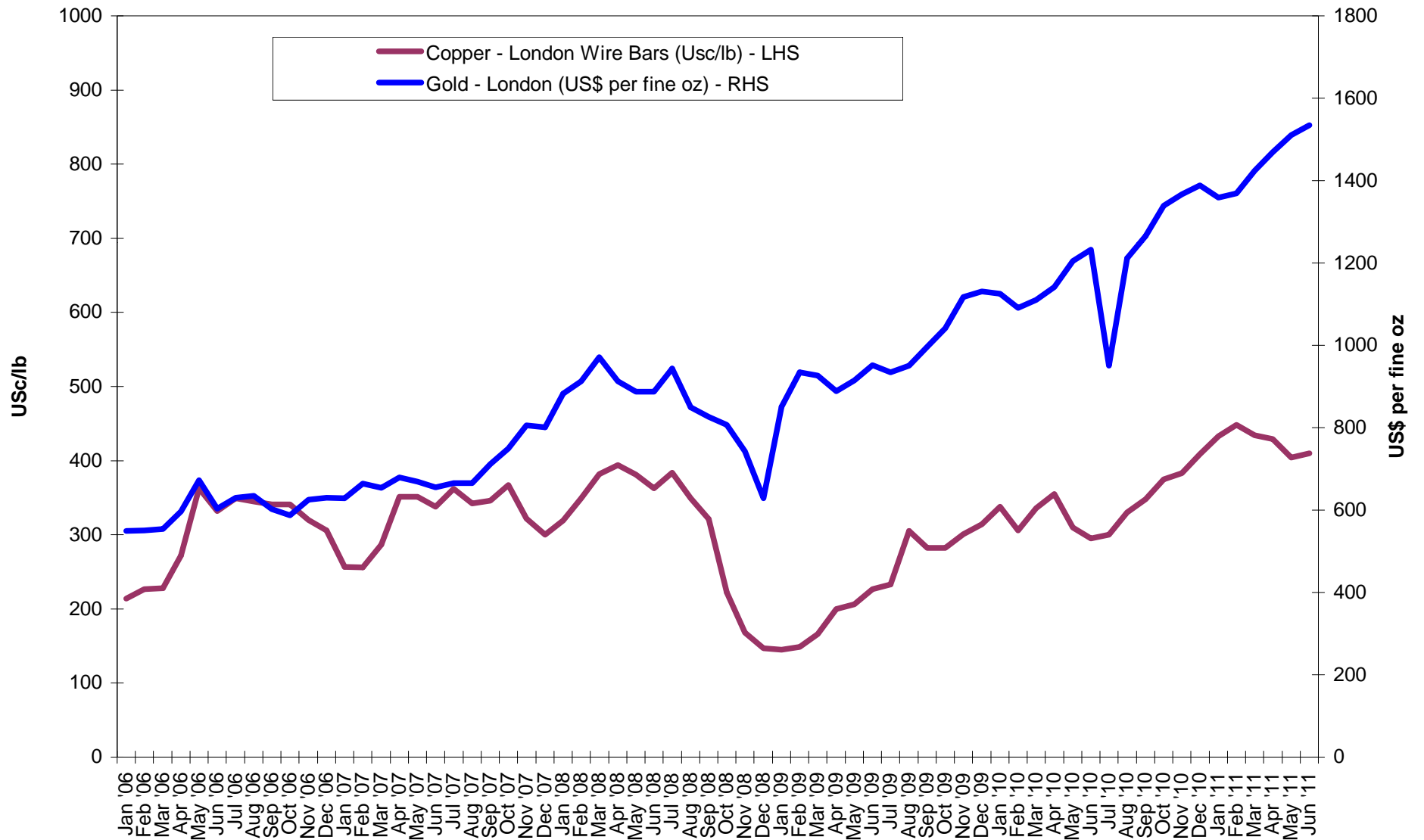
# 1) Economic Prospects: 2011-2014





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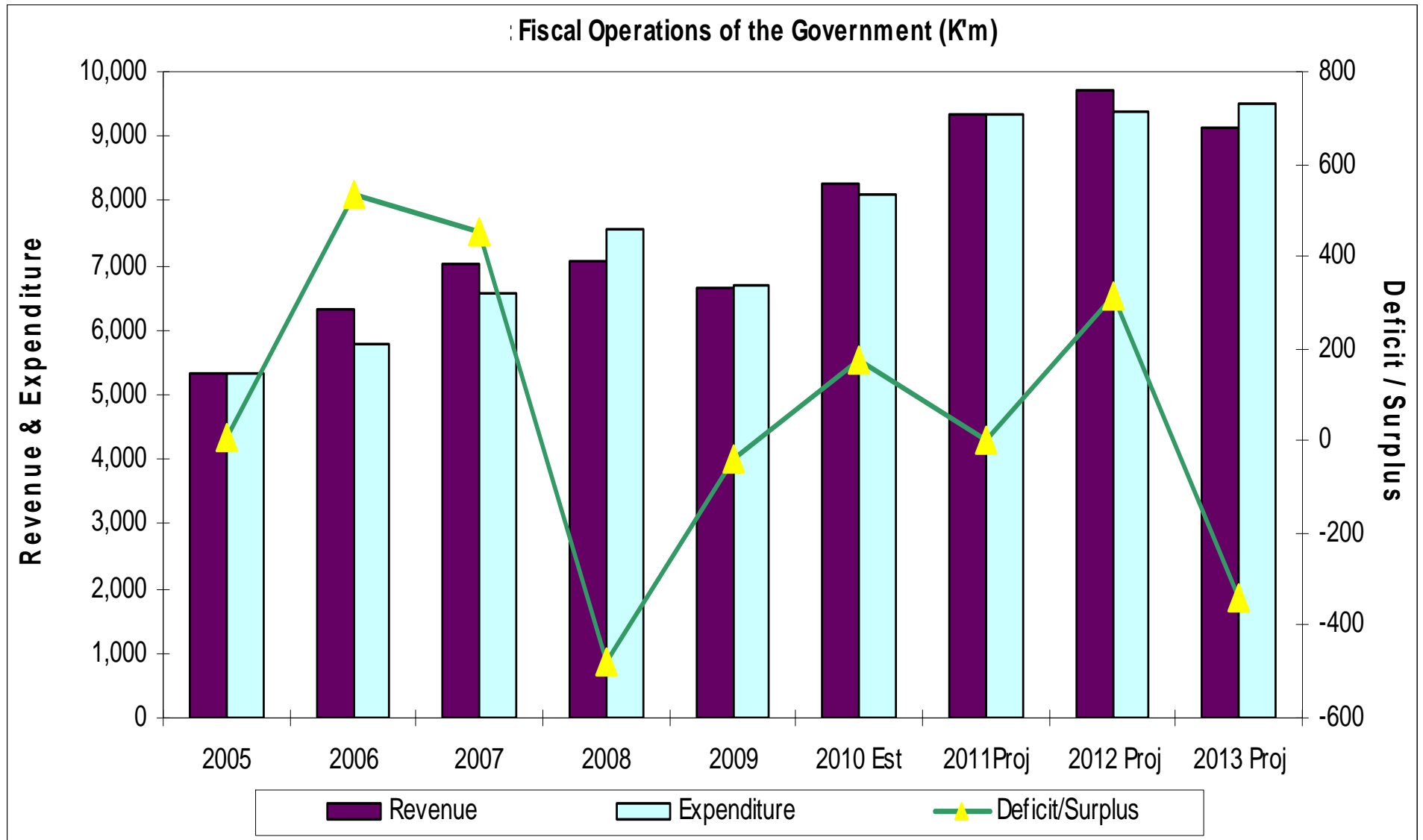
# International Prices of Copper and Gold





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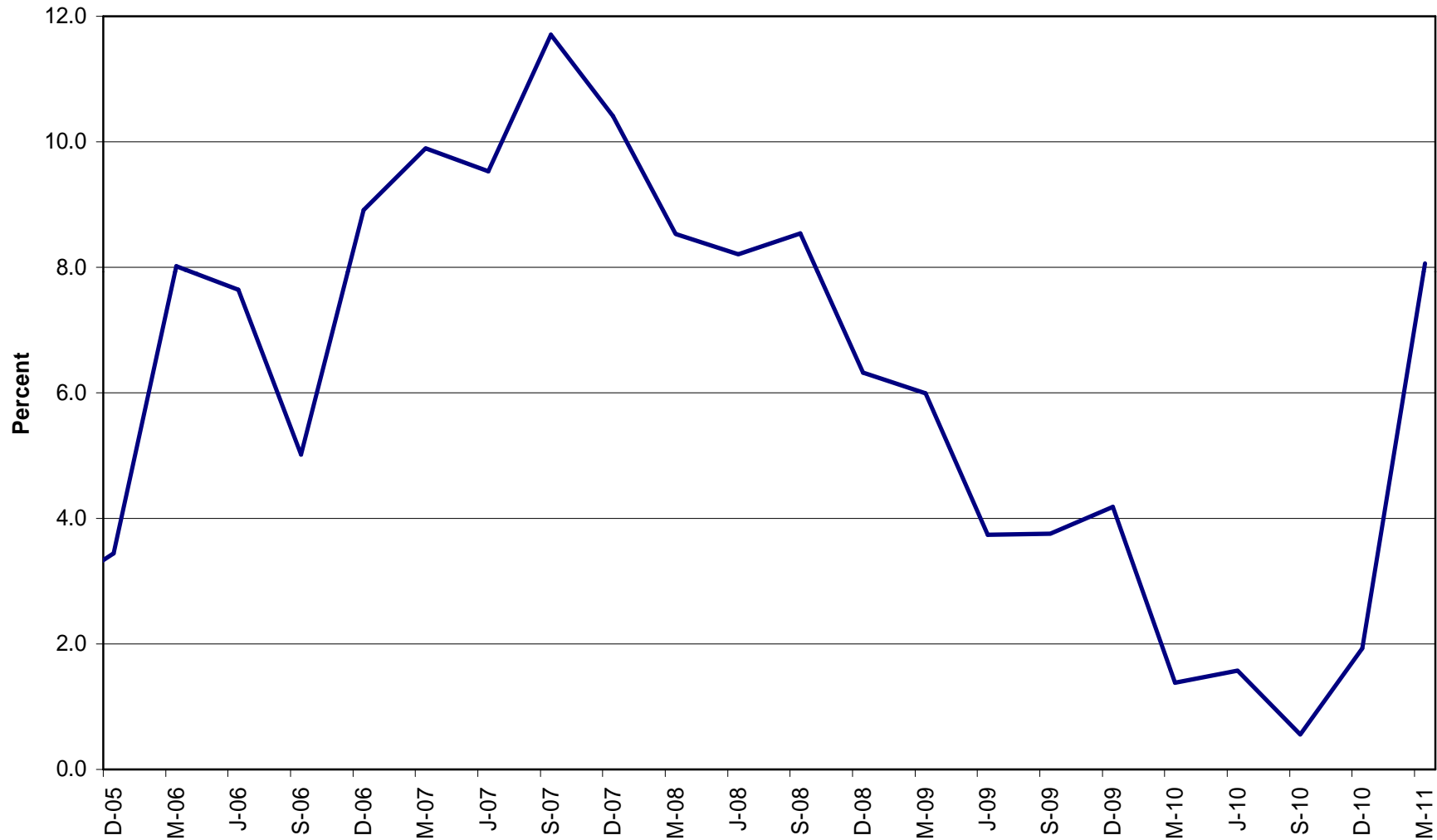
# Fiscal Operations





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# Employment (formal private sector)





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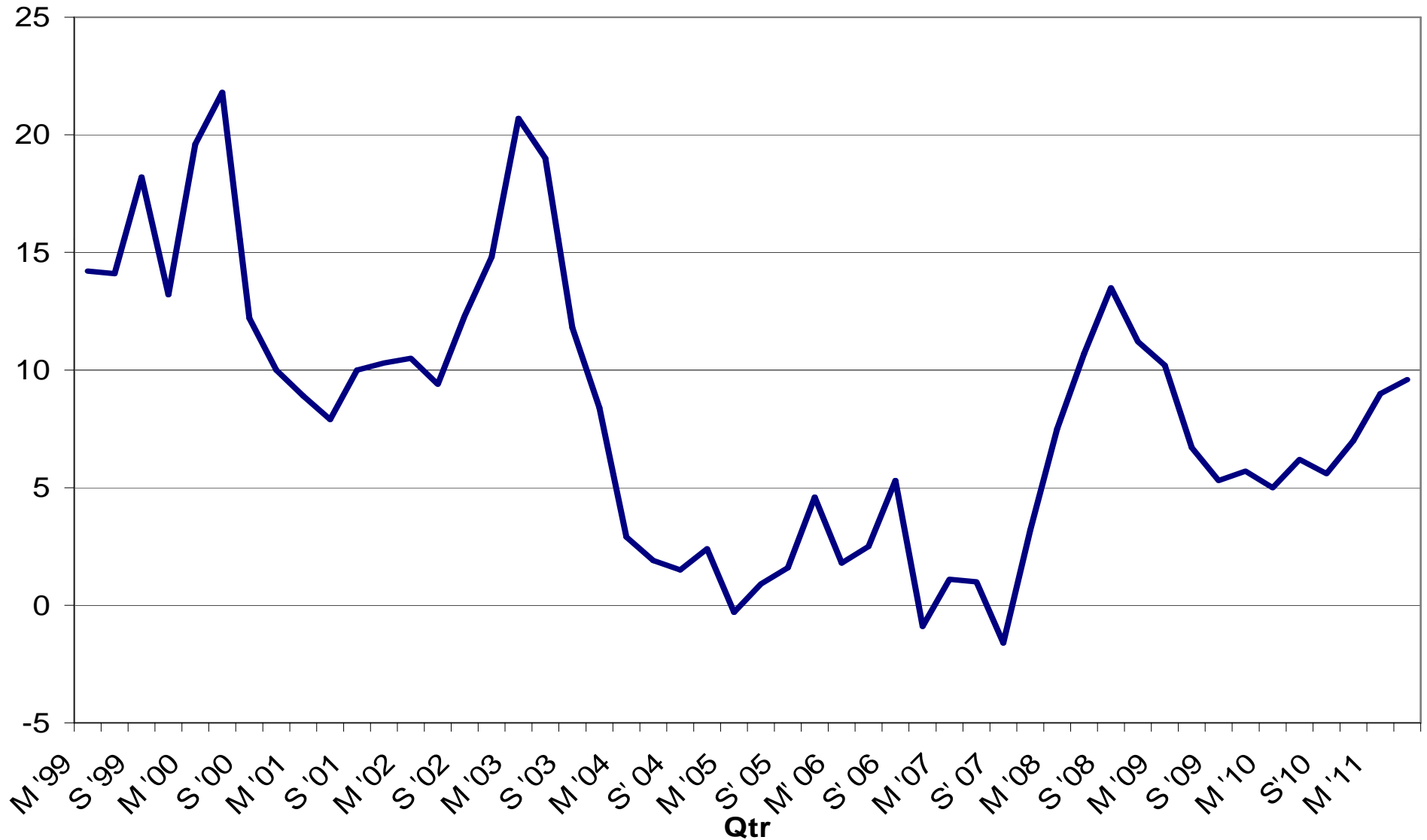
# Monetary Policy Management

- Increase in aggregate demand, Gov't expenditure, international food and fuel prices have led to increased prices
- Annual inflation is 9.6 percent in the June quarter of 2011
- Trade-off between economic growth and inflation



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# Inflation — annual % change







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# Monetary Policy management

- BPNG will strive to maintain its price stability objective in the current high inflationary environment, so that inflation does not spiral out of control
- This will require close cooperation and coordination between fiscal (Gov't) and monetary (BPNG) policies
- BPNG will use all available instruments to maintain price stability
- Ensure policies do not counteract the objective of economic growth, development and improved standard of living



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# Monetary Policy Management

- Close co-ordination and co-operation between the Gov't and the Central Bank



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## 2) Good Economic Management

- Microeconomic and macroeconomic considerations are important for non-inflationary growth
  - Gov't should not compete with LNG developer for the limited productive resources and capacities
  - Competition would only lead in higher prices, increased imported inputs (materials, equipment and labour), and misallocation of resources resulting in losses to the nation



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## Good Economic Management (cont'd)

- Recommendations for economic management during the LNG construction period
  - Gov't to refrain from undertaking major infrastructure projects, competing for the limited resources (equipment, machineries, labour) and other industries fully utilised by the LNG project
  - Gov't to concentrate on maintenance, upgrading and complementing the work done by the LNG developer
  - Gov't to plan its infrastructure implementation and readiness to implement as and when the LNG project progressively scales down its construction activities. Highly skilled workforce trained by the LNG developer will become available.



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## Good Economic Management (cont'd)

- Gov't should concentrate on the social sectors of education, health and law and order
- Keep to a bare minimum investment in existing infrastructure until the LNG project winds down construction
- Gov't to devise a plan on how to use these resources (skilled labour, equipment, machineries) when they become available



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### 3) Combating the ‘Dutch Disease’

- The LNG project threatens to price out the traditional export sectors, the so-called ‘Dutch Disease’
- Developing a competitive traditional export sector is one of the most effective ways of combating the ‘Dutch Disease’



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## 'Dutch Disease' (cont'd)

- PNG has fertile land, abundant water resources, and available labour
- Can develop a competitive advanced agricultural sector
- With world wide food shortage and rising food prices, Gov't should invest in the agricultural sector to make PNG a food supplier to itself and the world
- Set up a Special Purpose Account at BPNG with all the excess revenue for this purpose



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## 4) Initiatives of the Central Bank

- Financial inclusion – enabling every Papua New Guineans wherever they live access to banking and financial services. This includes microfinance and mobile banking products and services
- Payment system – enhance and improvement the National and International payment systems and make them modern, low cost and efficient





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## 5) Conclusion

- Gov't, through fiscal policy can redistribute effectively the windfall revenue by investing in the social sectors and agriculture to combat Dutch disease and achieve balanced growth
- Gov't not to compete with limited resources during construction phase of the LNG project
- Closer co-ordination need between fiscal and monetary policy to contain inflation so it does not spiral out of control during this period of high economic growth



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**Thank you**