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Papua New Guinea Economic Update and Seminar 'The Papua New Guinea Economy Amidst Resurgent Commodity Prices'

Port Moresby, May 2, 2011 – In 2010, Papua New Guinea's economy expanded by 8 percent, consolidating five years of strengthening growth. In early 2011, commodity prices were reaching record highs, and this attracted more new investment to PNG's rich natural resources, and lifted incomes for cash crop growers. The health of PNG's economy in 2011 contrasts sharply with the successive crises it experienced a decade earlier, participants heard at a seminar at the World Bank's Public Information Center last Thursday evening.

But higher international food and oil prices are hitting consumers, particularly poorer households in urban areas. Independent Competition and Consumer Commission (ICCC) Commissioner and CEO Dr Billy Manoka said that increasing competition in the rice market had not translated into falling retail prices for consumers in recent years. He said that therefore the ICCC is maintaining a vigilant eye for collusion among wholesalers and importers.

Commissioner Manoka presented the ICCC's approach to monitoring some of PNG's key consumer prices. *"The Commission moved away from direct price control to factory gate price monitoring of rice, flour and sugar in the mid 2000's as there existed some level of competition in the rice, flour and sugar market.*

"However, competition does not appear to be working in the Commission's view as retail prices have continued to increase over recent years notwithstanding falling factory gate prices for some of these products. The Commission has therefore commenced monitoring the wholesale and retail prices of all brands apart from the factory gate prices of the products that are milled in PNG."

The turnaround in PNG's economic performance, with successive years of relatively high growth over the past half-decade, has lifted average incomes to their highest levels since the mid-1990s, said World Bank Country Economist for Papua New Guinea, Tim Bulman. He said that PNG's policy makers have taken a more prudent approach to managing the current strength in the economy, and this adds to the optimism around the outlook.

“If policy makers can maintain moderate growth in government spending on vital infrastructure and public services, and can limit the pressures from capacity constraints on prices, PNG can sustain its recent strong growth into the future. The 2011 budget takes important steps in this regard, by returning the budget to surplus during an upswing.

“PNG’s experience in the early 1990s, when the economy expanded by half in a few years but then had a decade of crises and falling incomes, shows that strong growth needs to be carefully managed if it is to be sustained.

“This year’s budget takes other important steps to achieve this. It pays down the government’s superannuation liabilities, and lays the groundwork for a system of funds that will manage PNG’s volatile and uncertain resource revenues and ensure that future generations will share in PNG’s wealth.”

Mr Paul Barker, Executive Director of the Institute of National Affairs, pointed out the issue of rising inequality. “While the strong growth of recent years has lifted average incomes above the levels at Independence, today that wealth is distributed far less equally,” he said, in discussing Dr Manoka’s presentation.

Thomas Viot, Economist at the EU Delegation, highlighted one of the key challenges to improving access to the country’s new wealth.

“PNG has enjoyed an unprecedented ten years of solid economic growth and is on track to become a significant gas producer. However there are important challenges to materialise this strong macro-economic performance into actual improvement of living standards for the people of PNG, mainly related to the efficiency of public spending to improve service delivery,” he said, in discussing Tim Bulman’s presentation.

The newly rejuvenated Economics Society hosted the seminar, which was supported by the World Bank’s Papua New Guinea Office. President of the Society James Keile said “the Economics Society of PNG will make this seminar the first of a regular series discussing key issues for PNG’s economy. A robust public discussion of policy issues is key to helping PNG navigate the challenges of turning current high commodity prices into better living standards for its citizens. We welcome the support of the World Bank in making the first of these seminars happen.”

The World Bank, Papua New Guinea Office’s just-released briefing note on the state of PNG’s economy, *‘Enjoying the opportunities—and facing the challenges—of resurgent commodity prices’*, discusses the impact of high commodity prices. It is available from the World Bank’s website, www.worldbank.org/png . Dr Billy Manoke’s presentation can be found at www.iccc.gov.pg

The World Bank’s next PNG Economic Update is planned to be launched in July and the flagship *East Asia and Pacific Social & Economic Update* is expected in October.

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