

PACIFIC ISLANDS REPORT

*Pacific Islands Development Program/East-West Center
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PNG ECONOMY FORECAST TO GROW BY 9.5 PERCENT *Gas, metals, oil drive growth*

PORT MORESBY, Papua New Guinea (PNG Post-Courier, April 1, 2011) – The Papua New Guinea economy has been projected to grow by 9.5 per cent in 2011 supported by the continued construction of the PNG LNG project.

The economic activity in the country is measured by the growth in real Gross Domestic Product (GDP) which was around 8 per cent last year.

The high growth rate in 2010 was also bolstered by increased activities in building and construction, transportation, manufacturing, housing, and some service industries related to the PNG LNG construction work.

Increase in government expenditure, which included the supplementary budget of K653.3m passed in November 2010, also contributed to the growth.

High international prices of copper, gold, oil, and agricultural commodities funded the increase in government expenditure.

Increased income from exports, combined with income from those industries benefiting from the LNG project, and the payments to landowners, led to an increase in private sector consumption and capital formation.

This was announced in the bank of PNG's monetary policy statement released by Governor Loi Bakani yesterday and published in full on pages 25 and 26 in today's newspaper.

The production of Ramu nickel and higher expected international prices for mineral and agricultural commodities, as already seen in the first three months of the year, will result in high domestic demand by the Government and the private sector as well as capital formation at levels similar to those in 2010.

Based on these developments, the BPNG projects that real GDP growth in 2011 will be high at around 9.5 per cent.

Annual inflation was 7.2 per cent in 2010 in line with the bank's projection but in 2011 it is expected to rise to 8.5 per cent, which indicated that inflationary pressures still remain, including the Dutch Disease, however the BPNG says it is tolerable given the high economic growth rate.

However, the bank had cautioned the government to do certain things to help maintain price stability this year and into the medium term. Among them, the bank encouraged the government to keep its expenditures within its 2011 budget of K9.3 billion and moving all trust accounts from commercial banks to the central bank.

The central bank will also open an offshore bank account for the Government, to insulate unbudgeted foreign currency tax flows from impacting on domestic liquidity.

In the 2012 budget to be handed down in November this year, the bank urged the Government to appropriate for interest payments on treasury bills, inscribed stocks and central bank bills to be placed on tap for the public.

It said the government should also refrain from competing with the private sector for limited production resources and instead should concentrate on maintaining existing transportation and social sector infrastructure that have deteriorated in many parts of the country, in order to improve health, education and law and order during the construction phase of the LNG project;

The bank said the government should also increase capacity of the workforce by providing appropriate training in schools and colleges.

"This would also allow for the utilisation of the expertise, physical and human resources that are built up by the LNG project development, to be efficiently and productively used as and when they are released from the project," the bank said.

The bank also urged government agencies to carefully monitor prices of goods being imported from lower-cost countries like China and India and ensure they behaved prudently and responsibly in passing on the lower imported prices of goods.

"If the above recommendations will be accepted and implemented, the Bank is confident that the Dutch Disease phenomena will be minimised, and inflation would be contained to an acceptable rate of below the two digit level during the construction and the production stages of the LNG project."

"When the flows from dividends, royalties, and taxes of the LNG project commence, the nation will be ready to use them in a sustainable, efficient, and productive way that will benefit the majority of the population," it said.

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