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SPEECH BY

HON. DON POLYE, INTERIM MINISTER FOR PNG TREASURY

“PAPUA NEW GUINEA’S CONTINUED ECONOMIC GROWTH”

Introduction

Chairman, distinguished speakers, delegates, business executives, ladies and gentlemen.

I wish to take this opportunity to thank the PNG Advantage Organizing Committee for inviting me to speak this morning on the PNG economy. Before going on any further, I must inform that PNG has a new Prime Minister and an interim cabinet including Hon Don Polye as Minister for Treasury and Finance. The change of leadership occurred as a result of a vacancy in the Prime Minister’s position due to prolonged sick leave by Sir Michael Somare, as you may be aware.

However, the Treasurer is not here this morning due to other prior commitments and I, as the Interim Minister for National Planning and Rural Development and Defence will present this paper on his behalf.

PNG Economic Performance

Chairman, I am proud to say here today that PNG had recorded 8 years of consecutive economic growth representing the longest period of uninterrupted growth in PNG’s history.

In 2011 the economy is expected to continue to grow by a very strong 9.3%, significantly higher than the 8% growth anticipated earlier. The forecast acceleration in growth mainly reflects the expected ramp up in the PNG LNG construction activity, investor and consumer confidence following continued macroeconomic stability as well as critical microeconomic reforms.

Non-mining GDP is expected to grow at 10.2% in 2011, two percentage points higher than the 2011 Budget estimate of 8.2%. The strong growth in the non-mining sector is largely driven by construction activity and other activities associated with the PNG LNG project.

Chairman, construction is the leading activity in the non-mining sector with 21.0 % growth in 2011, mainly driven by construction of accommodation and roads for the PNG LNG project. The prospect of increased profits in the economy is translating into business expansion, with significant investment in business infrastructure and operations to meet the increased demands of a growing economy.

Transport, storage and communication and wholesale and retail trade sectors are also expected to perform strongly by 16.0 % and 17.0 % respectively mainly due to spillover effects of the PNG LNG project and other construction activities. Increased competition in the mobile phone segment of the communication industry is continuing to contribute to growth in the communication sector.

Chairman, agriculture sector is also expected to contribute to higher production in response to rising commodity prices. The agriculture, forestry and fisheries sector is expected to grow at a robust 4.1% in 2011, driven by increased coffee, palm oil and copra production.

Mining and quarrying sector is expected to grow by 8.2% in 2011, driven by the expansion at major mines and the expected commencement of production at Ramu Nickel project.

Medium Term Prospect

Chairman, over the medium term, the economic outlook remains positive. Economic growth is expected to fall to 5.6% in 2012, reflecting a slowdown in the rate of growth of construction activities associated with the LNG project, lower production expected at Ok Tedi and Lihir Gold mines, and lower oil production from maturing oil fields.

Real GDP growth is expected to ease further to 3.9% in 2013 as the rate of growth of the construction phase of the PNG LNG project slows further. However, real GDP growth is expected to pick up again in 2014 and 2015 to 6.4% and 21.3% respectively as the PNG LNG project commences production.

Chairman, rapid economic growth is now a major concern as it has direct impact on inflation. Annual inflation is now forecast to be 9% in 2011, an upward revision to 2011 Budget forecast of 8.2%. This is due to higher economic growth projected in 2011, a shortage of skilled labour and land, which are underpinning wages and rental prices, and higher food and fuel prices from higher global demand. There are concerns of rising inflationary pressures as the economy faces significant challenge of absorbing such a rapid ramp up in economic activity in the presence of capacity constraints.

Conclusion

To conclude, ladies and gentlemen, 8 years of solid economic growth and the best is yet to come, however, there are a number of key risks that we are confronted with:

- Firstly the global economic outlook is uncertain. Given high historical commodity prices, a setback to global growth could translate to marked falls in commodity prices and revenue from mining, petroleum and agriculture;
- Secondly, the significance of a single LNG project – means PNG growth would be greatly impacted in the event of its interruption.

- Finally, the risk of an overheating economy is anticipated to accelerate inflation as capacity continues to hamper growth.

Chairman, the level of economic activity associated with the PNG LNG project is putting upward pressure on prices, asset values and the exchange rate. If expectations to build of on-going inflation, it may be difficult to return inflation to the more moderate level in the medium term.

Further, loss of fiscal discipline would have a negative impact on the domestic economy. An increase in fiscal stimulus would lead to even higher levels of inflationary pressures and possible crowding out of private sector activity.

Therefore, the Government is cautious about the above risks and particularly inflation and will need to carefully design and implement expenditure programs that will not add further to the inflationary pressure.

Thank you all for listening.
