PNG Economic Survey 2009

‘Sustaining growth amidst global turmoil’

by

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Overview

- Comparison of PNG’s two major commodity boom periods
  - Management of fiscal outcomes
  - Employment creation

- Sustaining diversified growth and employment creation in the face of a global economic slowdown and lower commodity prices
  - Benefits from competition policy reform in 2008
  - Opportunities for regulatory reform
A Tale of Two Commodity Booms (1991 vs. 2003) - GDP and Fiscal Outcomes

GDP, constant prices (billions Kina) and Budget Balance (% GDP)

Source: IMF GFS (2009), GoPNG (2008, 2009)
A Tale of Two Commodity Booms – Employment

Employment Index (2002 = 100)
Lessons from the commodity booms

- Most recent commodity boom has been better managed than the last. Higher rates of employment have arisen from
  - Diversified growth, macroeconomic stability and confidence
  - Flow on effects of earlier structural reforms
- Fiscal dangers emerging
  - Recurrent expenditures grew strongly over last 3-4 years
  - Reducing expenditure will be difficult
  - Budget deficit of 2.2 per cent recorded in 2008
- Most importantly, continued diversified growth depends on further microeconomic reform
Aviation Reform: Air Travel Costs from Port Moresby (2008 vs. 2009)

TO BRISBANE

TO CAIRNS

TO SINGAPORE

Cost per KM, $US
Continuing Impacts of ICT Reform

### Table 4  Average call rates for domestic and international phone calls, 2008 (kina per minute)

<table>
<thead>
<tr>
<th></th>
<th>Peak (per minute)</th>
<th>Off-Peak (per minute)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Domestic</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pre-Digicel</td>
<td>K1.80</td>
<td>K1.60</td>
</tr>
<tr>
<td>Post-Digicel (September 2008)</td>
<td>K0.99</td>
<td>K0.49</td>
</tr>
<tr>
<td><strong>International</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pre-Digicel</td>
<td>K2.45</td>
<td>K1.60</td>
</tr>
<tr>
<td>Post-Digicel (September 2008)</td>
<td>K1.48</td>
<td>K0.99</td>
</tr>
</tbody>
</table>

Source: Papua New Guinea, 2008e, Submission to the ICCC Review of the ICT Sector, Department of Treasury and Finance, September, Port Moresby (using ICCC and World Bank (2008a) estimates, combined with online information from B-mobile and Digicel).
Figure 5  Ease of doing business percentile rankings for Pacific island countries

Estimating Impact of Regulatory Reforms on International Competitiveness

- Suppose a Reform Package which:
  - Reduces number of procedures to obtain all necessary construction licences from 24 to the regional average of 14
  - Reduces time taken to complete these procedures from 217 days to the regional average of 102 days
- Improve the Ease of Dealing with Construction Licences ranking from 124th to 31st in the world
- Overall Ease of Doing Business index improves by 12 places to number 83 in the world
- PNG obtains a business environment comparable to countries with a per capita GDP 3.5 times higher than its current level. i.e. Bulgaria, Colombia and Romania
Lessons Learnt: Comparison of Financial Costs and Time Delays for Key Business Activities

<table>
<thead>
<tr>
<th></th>
<th>Financial Cost</th>
<th>Time Taken</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Cost of Starting a Business (% of income per capita)</td>
<td>Cost of Licences (% of income per capita)</td>
</tr>
<tr>
<td>PNG</td>
<td>23.58</td>
<td>95.07</td>
</tr>
<tr>
<td>Regional Average</td>
<td>47.32</td>
<td>245.44</td>
</tr>
<tr>
<td></td>
<td>Time to Start a Business (Days)</td>
<td>Time to obtain a Licence (days)</td>
</tr>
<tr>
<td>PNG</td>
<td>56.00</td>
<td>217.00</td>
</tr>
<tr>
<td>Regional Average</td>
<td>34.67</td>
<td>101.89</td>
</tr>
</tbody>
</table>
Conclusion

- Current boom has been better managed than the previous
  - Solid macro-fiscal outcomes combined with earlier structural reforms have led to broader growth and higher employment creation

- Significant Dangers Emerging
  - Cutting back expenditures in the face of lower revenue will be a challenge as will invigorating the microeconomic reform agenda

- Some improvements in competition levels but broader progress on improving the investment climate has stalled
  - Streamlining business regulation and creating a fair open business environment are key reform targets for 2009