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PRESS RELEASE

S&P Global Rating for PNG

The Secretary for Treasury, Mr Dairi Vele, noted the change by S&P in PNG's ratings released on Tuesday evening 16th of April 2018.

S&P stated that "on 16 April 2018, S&P Global Ratings lowered its long-term foreign and local currency sovereign credit ratings on PNG to 'B' from 'B+'. The outlook on the ratings is stable. At the same time, we affirmed our 'B' short-term foreign and local currency ratings on PNG. We also lowered the transfer and convertibility assessment to 'BB-' from 'BB'."

The Treasury Secretary stated that "The downgrade is unfortunate. Regrettably the Rating's Agency based its assessment on outdated data and failed to comprehend fully the more positive fiscal outturn in 2017 and early 2018, and the Government's comprehensive reform plans embodied in the 2018 Budget and Medium Term Fiscal Strategy."

The Treasury Secretary further added that "the S&P conclusions about rising debt and debt service costs from wider fiscal deficits due to a loss in revenue and large reconstruction costs after the recent earthquake were inconsistent with recent empirical evidence."

"Contrary to the S&P's assertion, the fiscal deficit in 2017, at K1.79 billion, was lower than the Supplementary Budget estimate of K1.88 billion and substantially lower than the deficit in 2016 of K3.09 billion. Further the reconstruction costs following the earthquake are not expected to impact the Budget significantly and are expected to be financed from existing budget envelopes."

"Consequently PNG's fiscal deficits are contracting, not widening as a percentage of GDP as stated in the S&P release, and the Government remains on course to achieve its declining debt to GDP trends projected in the Medium Term Fiscal Strategy."

He said that it is pleasing to note, however, the S&P statement that "it would be willing to raise the ratings if it believes the Government will take appropriate steps during the coming year to bring spending in line with revenues such that fiscal deficits will narrow, the government's debt will decrease relative to GDP, and interest costs relative to revenue will decline." Further S&P said that "we also could raise our ratings if it remains likely that PNG's external position will improve significantly during the next few years, supported by solid economic growth and export receipts."

In this respect, the Treasury Secretary stated that "the execution of the Government's medium term plans have a high probability that these positive trends will be realised and that a positive re-rating will be achieved over the next 12 months."

The Treasury Secretary said “he was confident that positive momentum in terms of economic growth will be restored over the remainder of 2018 and growth would accelerate over 2019 and over the medium to long term. The recommencement of petroleum exports, announced by both Oil Search and Exxon in recent days, was extremely welcome news. The bringing forward of maintenance expenditures by both companies into the shutdown period will also facilitate greater exports over the remainder of 2018. Commodity prices, particularly oil and gas and base metals, are continuing to trend higher. And the resilience of our people in the Highlands, together with a concerted effort from our donor partners, governments and private sector, will see the affected regions quickly regain their strength, standing and productivity. Moreover business confidence is rising in the lead up to the APEC Summit as construction activities accelerate. And the World Bank and Asian Development Bank are accelerating plans to provide substantial low-interest budget support loans over a three year period amounting to USD 600 million.”

Specifically, the Secretary said that “when the proceeds of the upcoming inaugural bond issuance are added to the World Bank and ADB funding, PNG will be able to shift its debt portfolio away from high-cost domestic issuance, ameliorate the foreign exchange imbalance problem and extinguish the significant arrears outstanding to a number of domestic companies. The result will be higher economic growth rates, and both debt and debt service as a percentage of GDP will be placed on a declining trend. With fiscal control maintained over recurrent spending and with tax revenues picking up, the Government will be able to meet its public investment targets which, again, will provide stimulus to economic growth and employment.”

He said that the improvement in the outlook by S&Ps from ‘negative’ previously to ‘stable’ now was particularly encouraging, as to the affirmation of our ‘B’ rating on short-term foreign and local currency debt.”

While the Treasury Secretary said he was disappointed in the S&P downgrade to the long-term sovereign credit rating and remained critical of the Agency for not comprehending fully the recent performance of the Government, he was confident that a positive upgrade to PNG’s long-term credit rating could be achieved over the next 12 months.

Dairi Vele

Secretary