



**Presentation to the  
Members of Parliament**

**19 September 2007**

**State of the Economy  
2002 -2007**

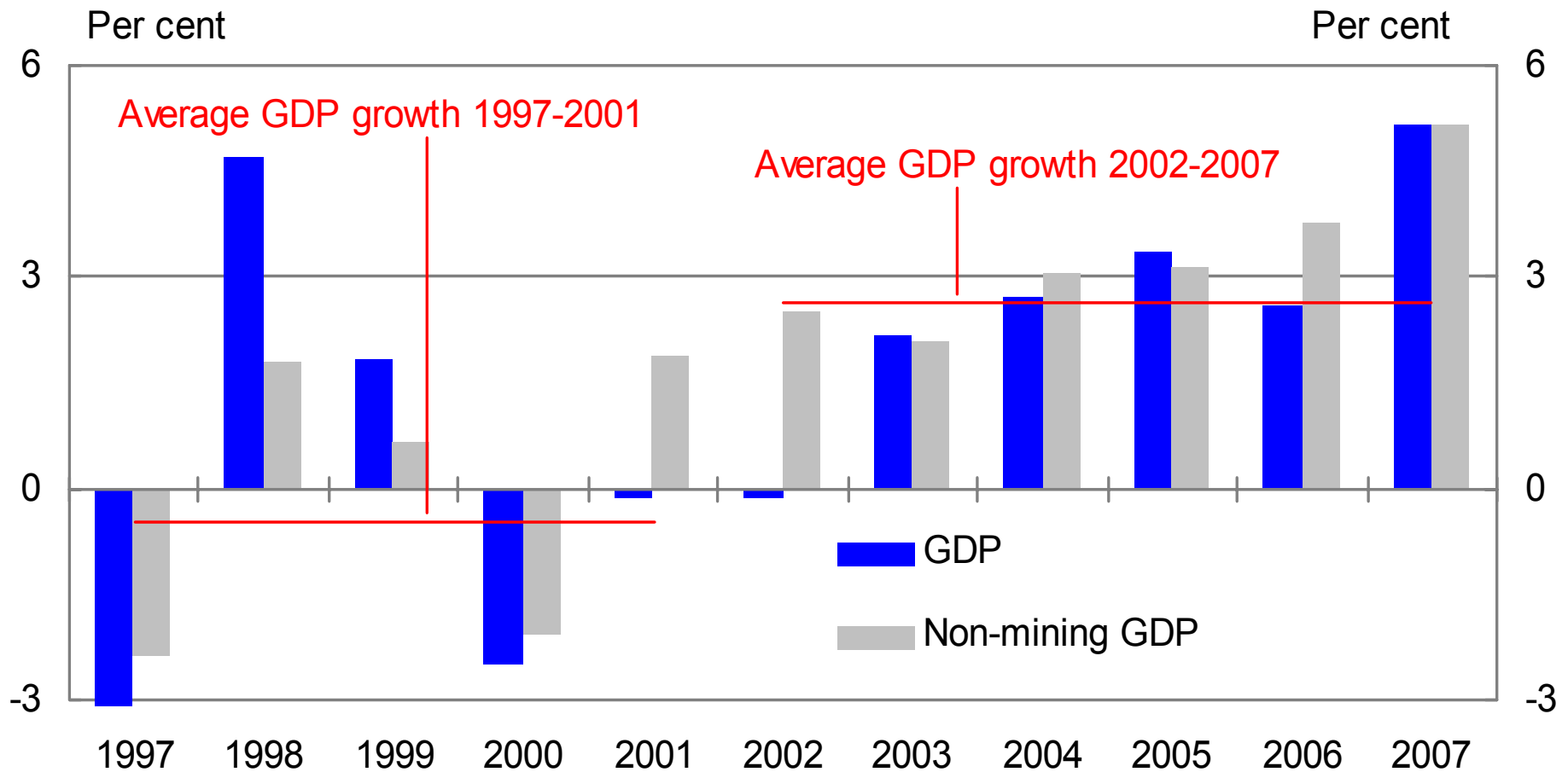
**Secretary for Treasury  
Simon Tosali**



# Presentation Outline

- Structure of the Economy
- Budget operations
- Summary Economic Forecast
- Challenges

# GDP growth



# Contributions to growth in Real Gross Domestic Product

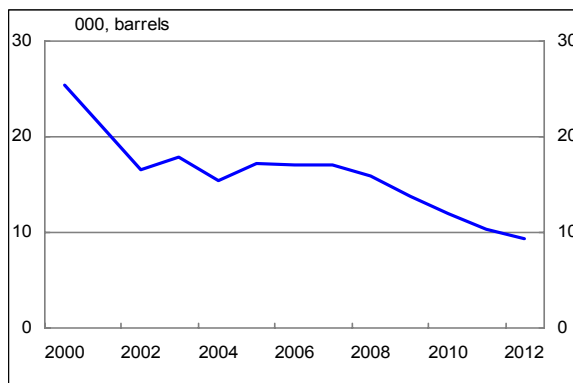
(Percentage points)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	Actual	Prelim.	Prelim.	Est	Est	Proj	Proj	Proj	Proj	Proj	Proj
Agriculture, Forestry and Fishing	-1.6	1.8	1.7	0.7	0.3	1.6	1.8	1.6	1.2	1.3	1.7
Oil and Gas Extraction	-2.0	-0.1	-0.3	0.4	0.0	0.0	-0.2	-0.3	-0.3	-0.2	-0.2
Mining and Quarrying	-0.3	0.4	0.3	0.2	-0.7	0.6	1.5	0.5	1.5	0.7	-0.5
Manufacturing	-0.4	0.4	0.2	0.7	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Electricity, gas and water	0.0	0.2	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Construction	2.6	0.6	0.3	0.5	1.3	1.3	1.0	0.7	0.8	0.8	0.5
Wholesale and retail trade	1.3	0.2	0.2	0.3	0.4	0.4	0.3	0.2	0.2	0.2	0.2
Transport, storage and communication	-0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Finance, real estate and business services	-0.2	-0.1	-0.1	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Community, social and personal services	0.4	-0.5	-0.3	0.2	0.3	0.5	0.3	0.3	0.3	0.2	0.2
<b>TOTAL GDP</b>	<b>-0.2</b>	<b>2.2</b>	<b>2.7</b>	<b>3.4</b>	<b>2.6</b>	<b>5.2</b>	<b>5.4</b>	<b>3.9</b>	<b>4.5</b>	<b>3.8</b>	<b>2.8</b>
Total Non-mining GDP	2.5	2.1	3.1	3.1	3.8	5.2	4.7	4.3	3.8	3.8	4.0

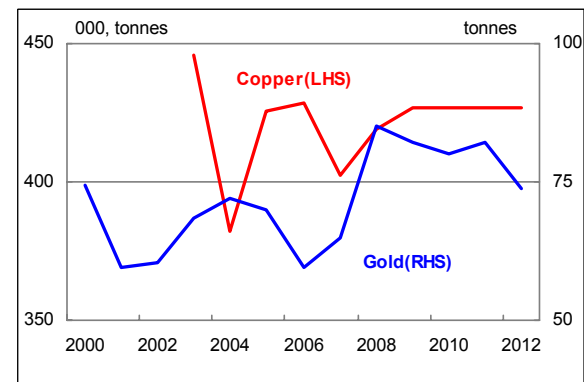
# Drivers of GDP growth

Volume of key commodities at constant (2007) prices

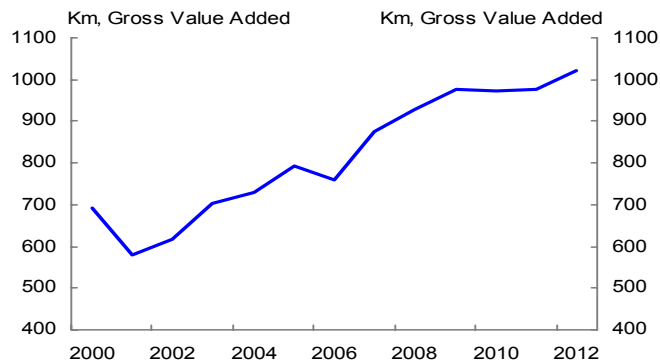
## Oil



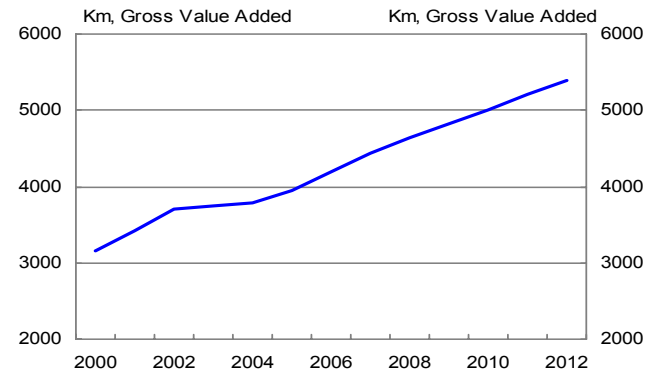
## Copper and Gold



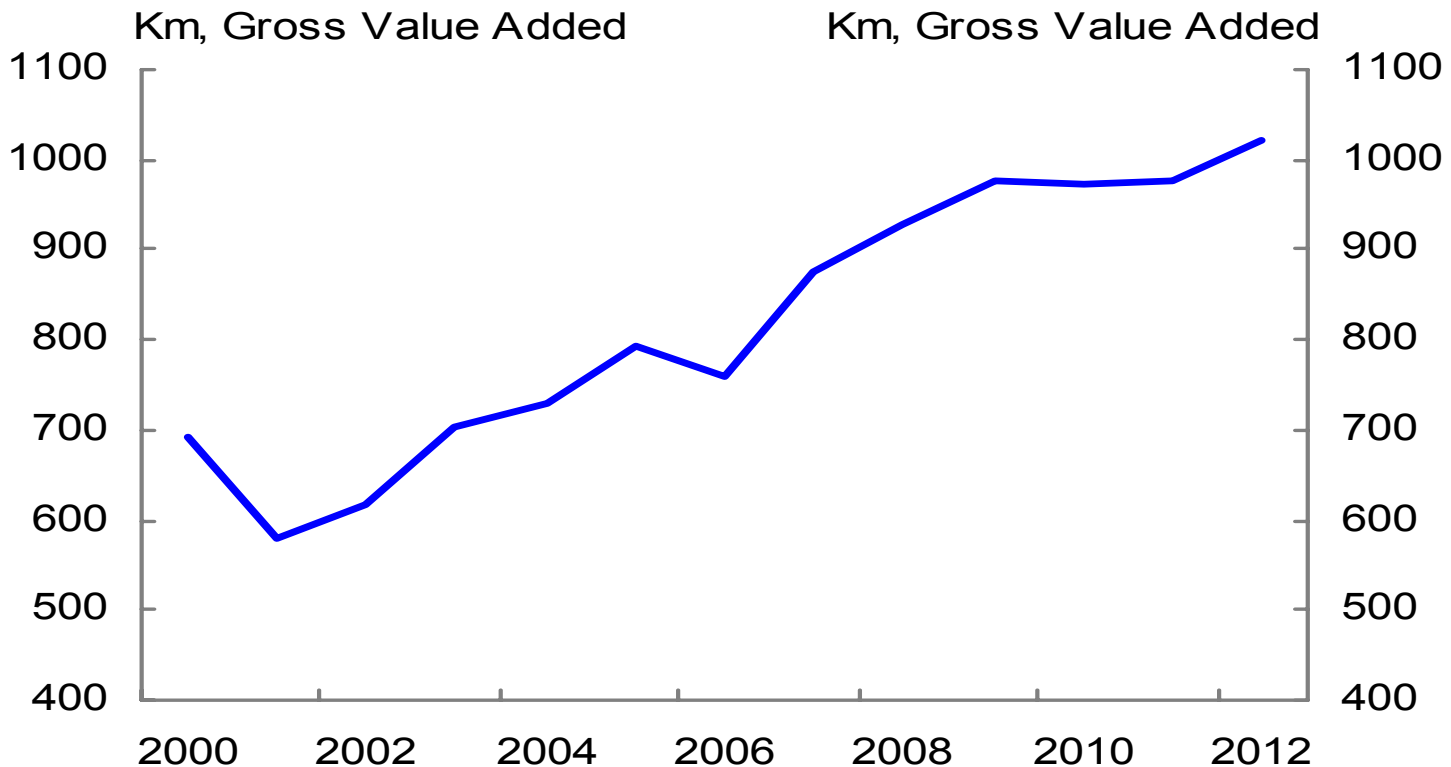
## Agriculture (Formal)



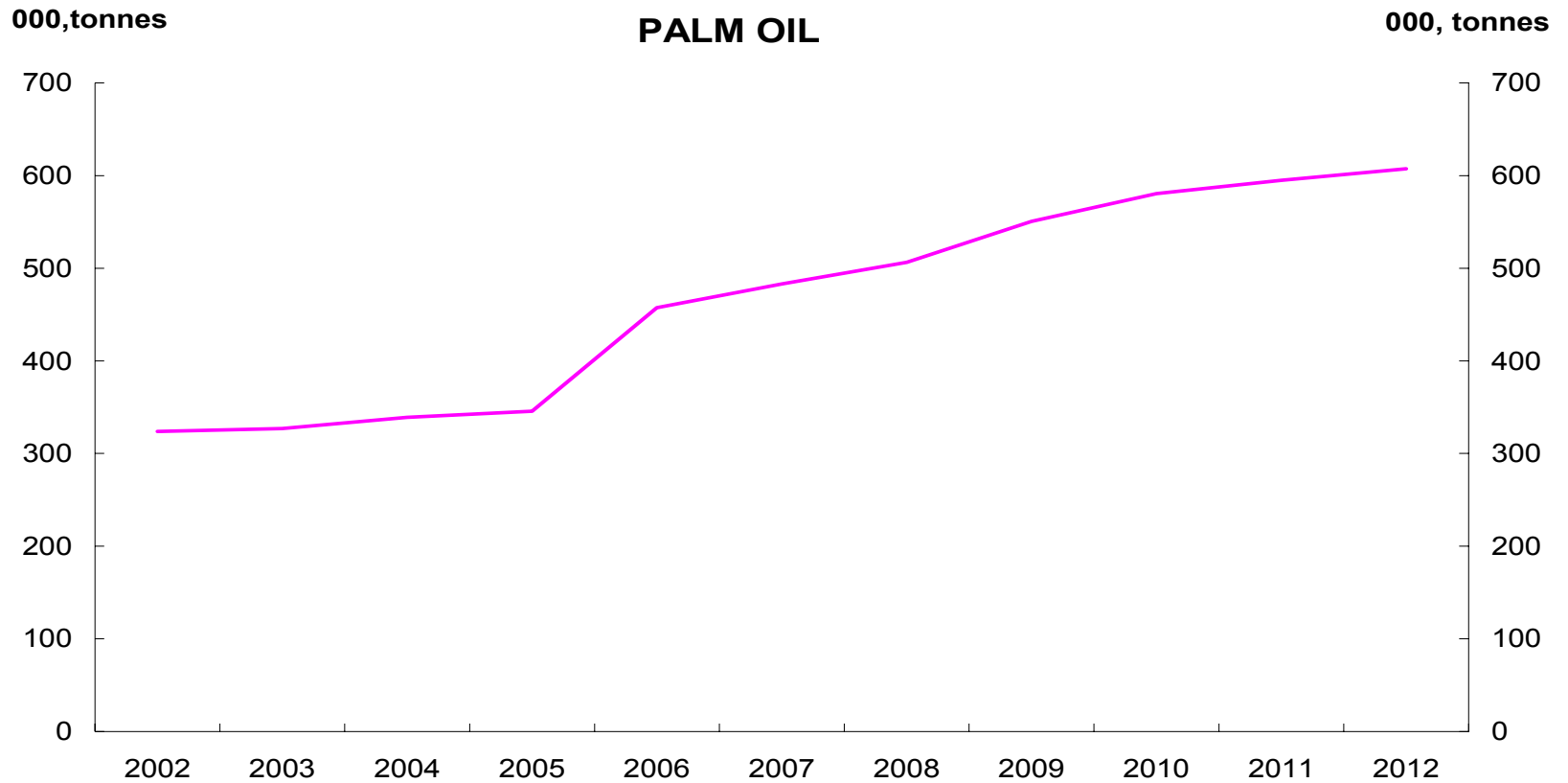
## Other sectors



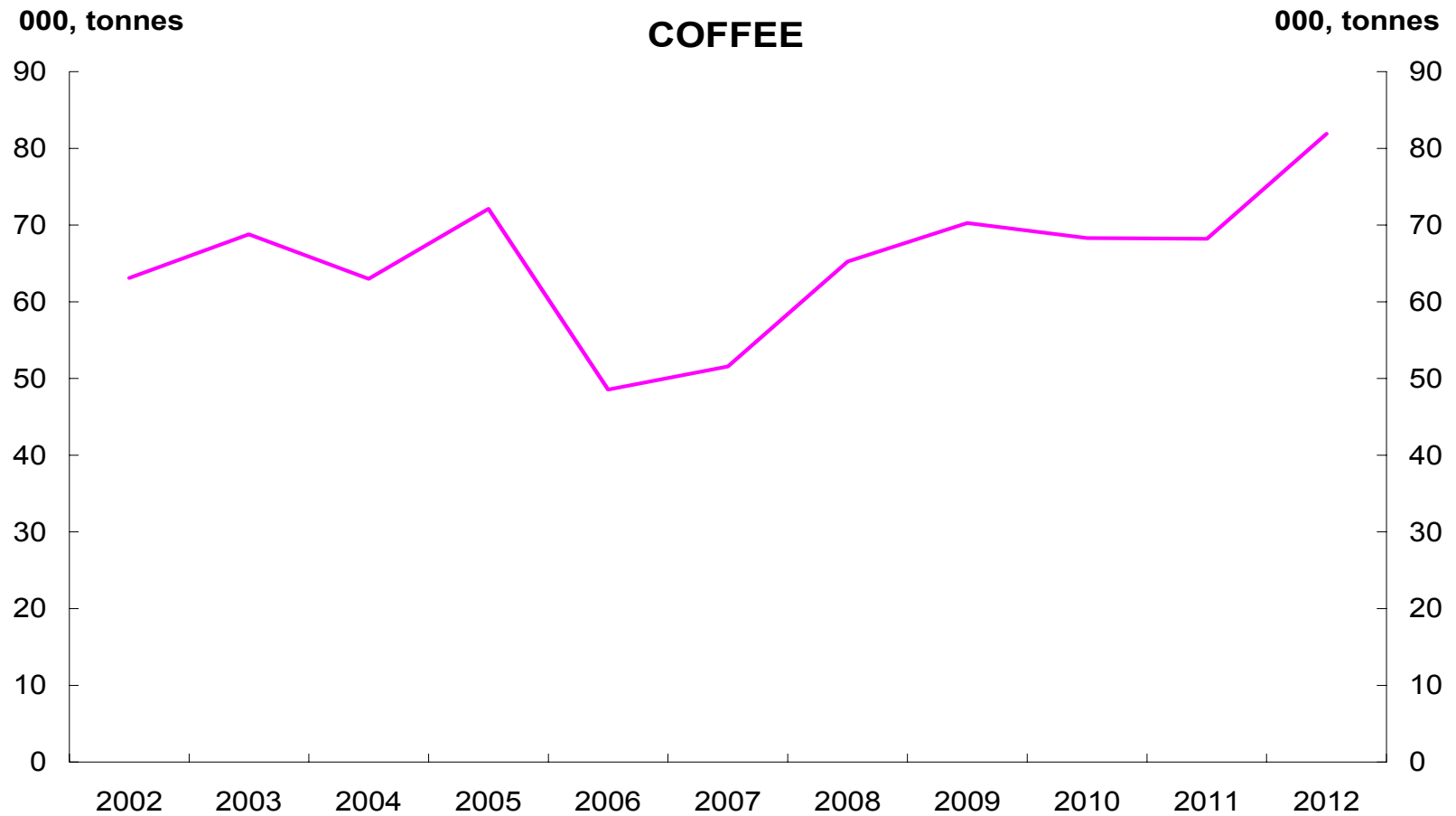
# Agriculture/Forestry/Fishing sector



# Main Agriculture Exports

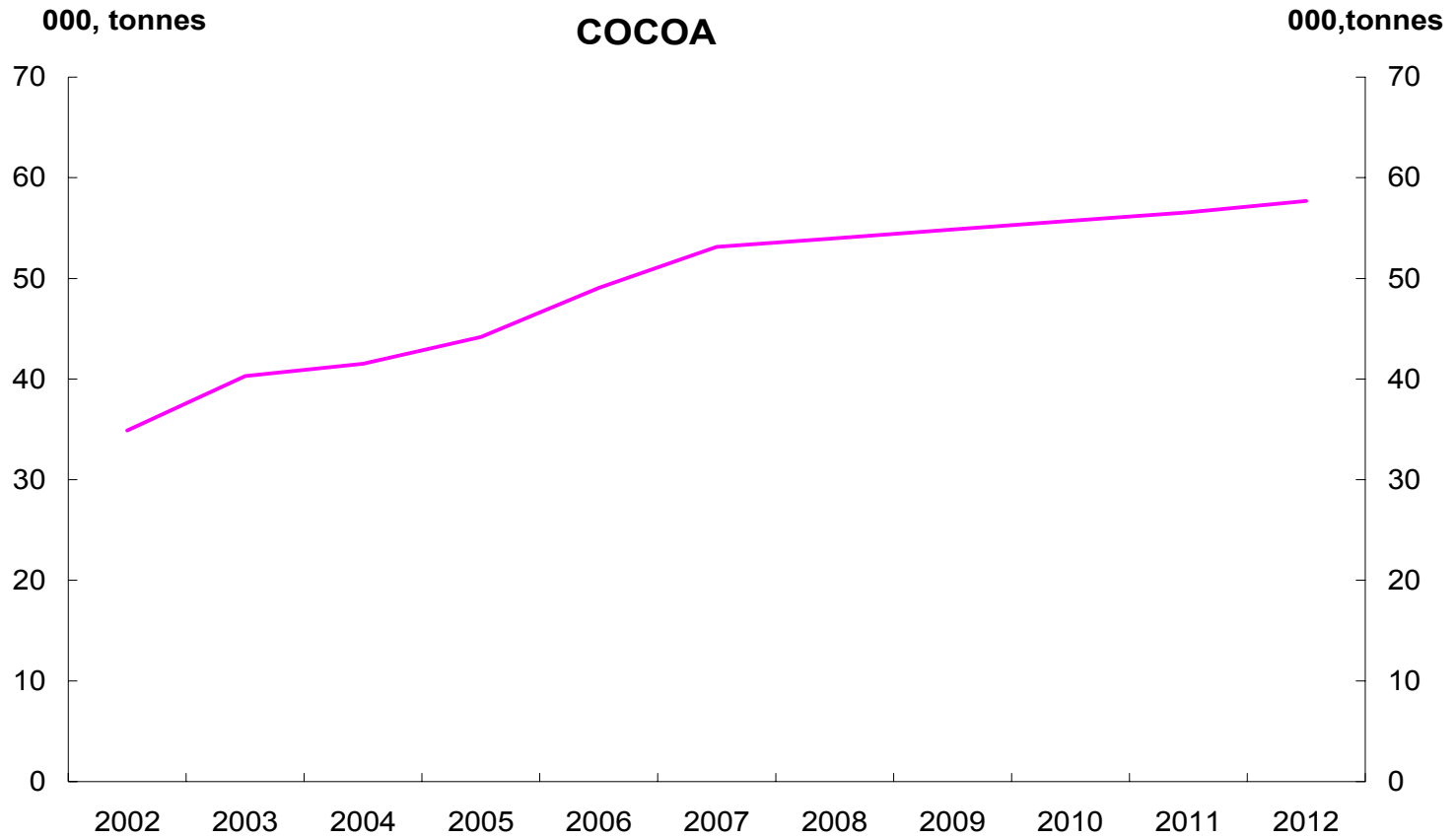


# Coffee

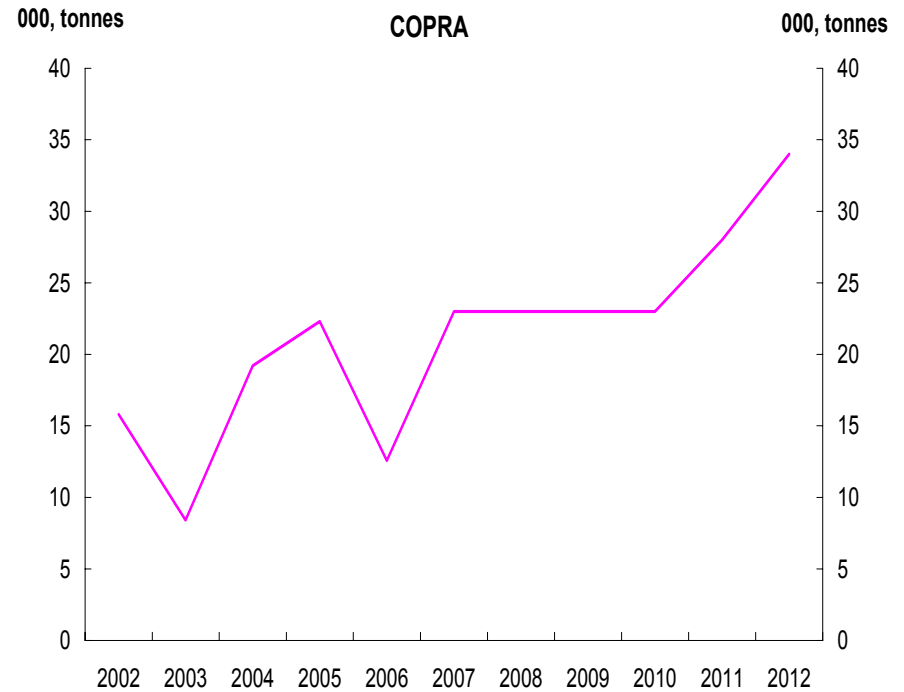
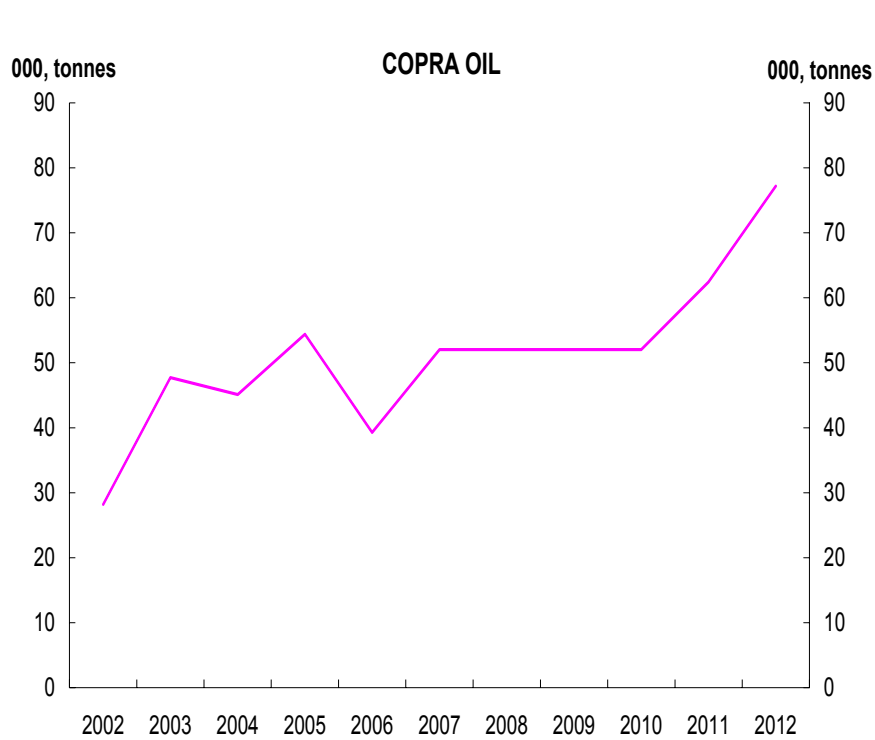




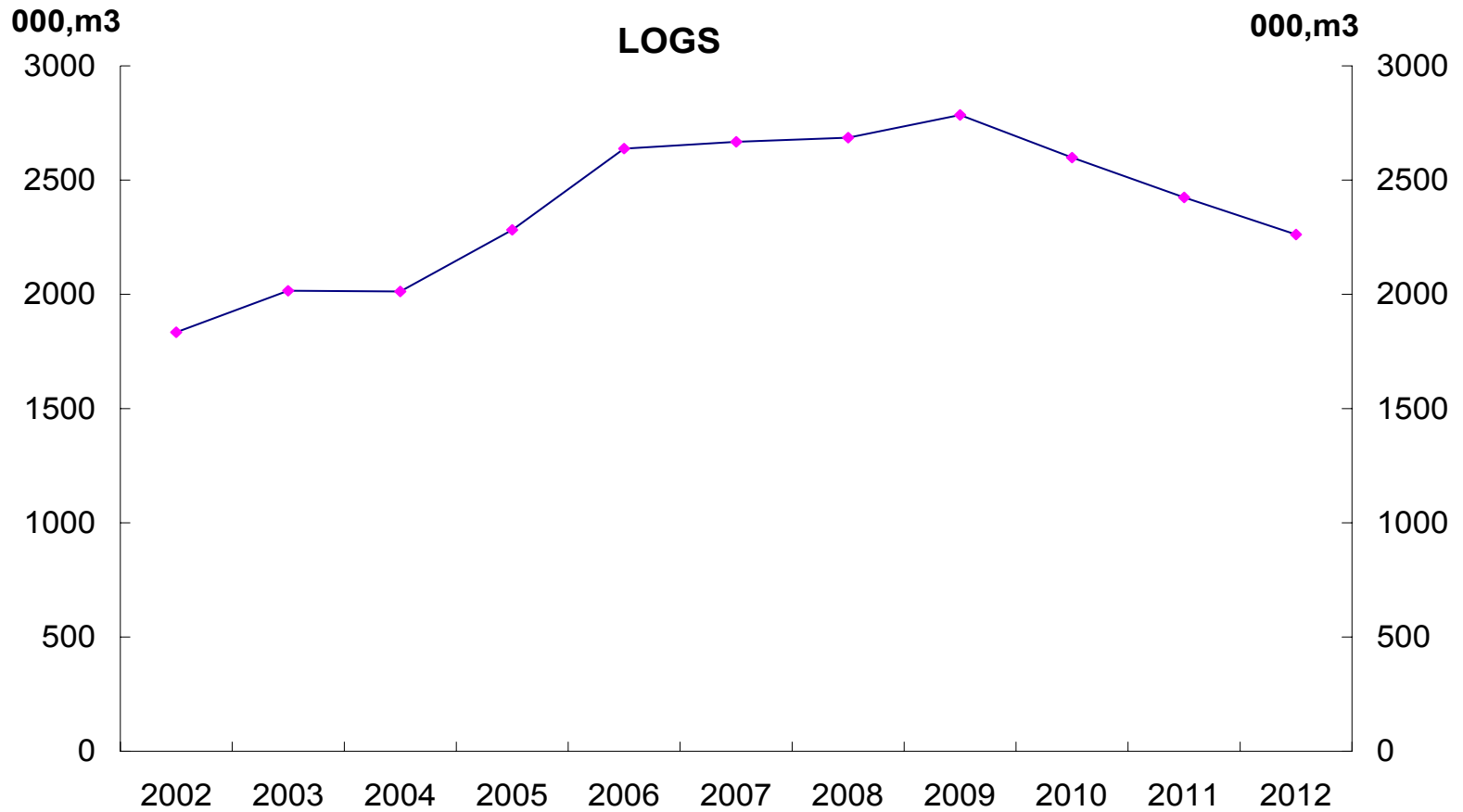
# Cocoa



# Copra Oil and Copra

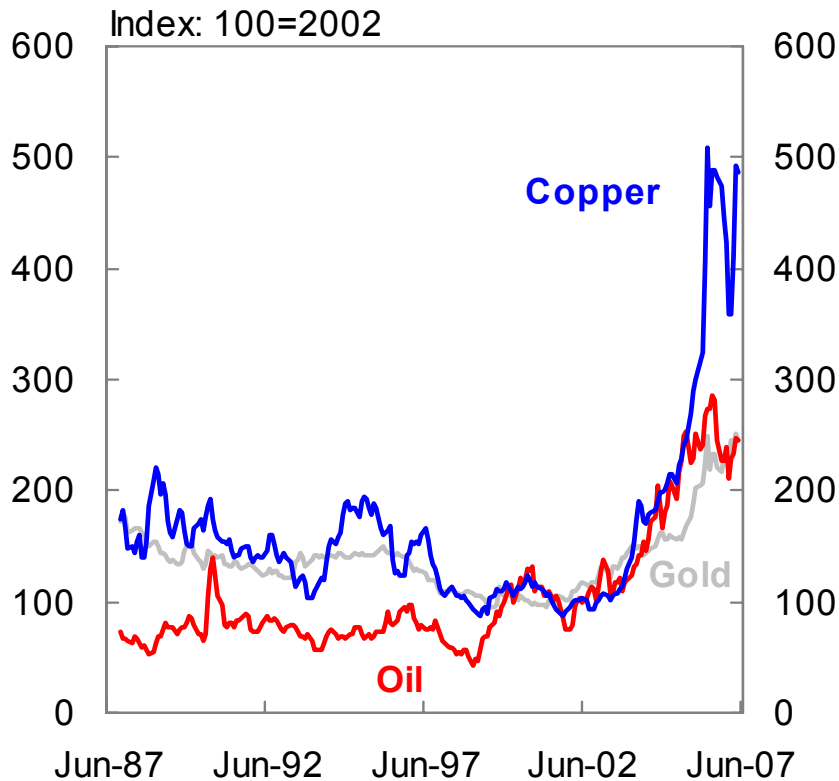


# Logs

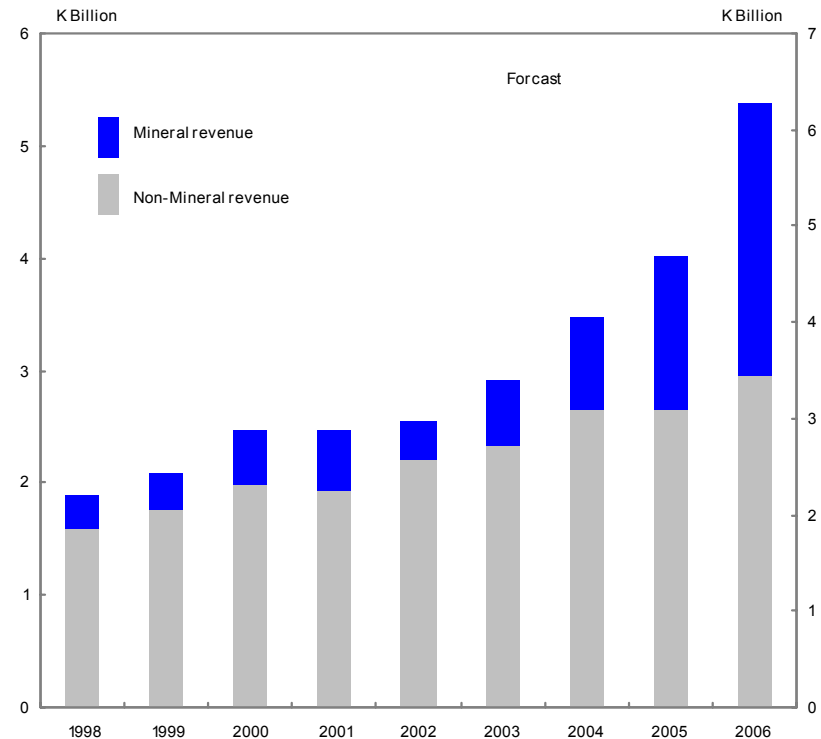


# Growth and revenues boosted by commodity boom

## Commodity Prices

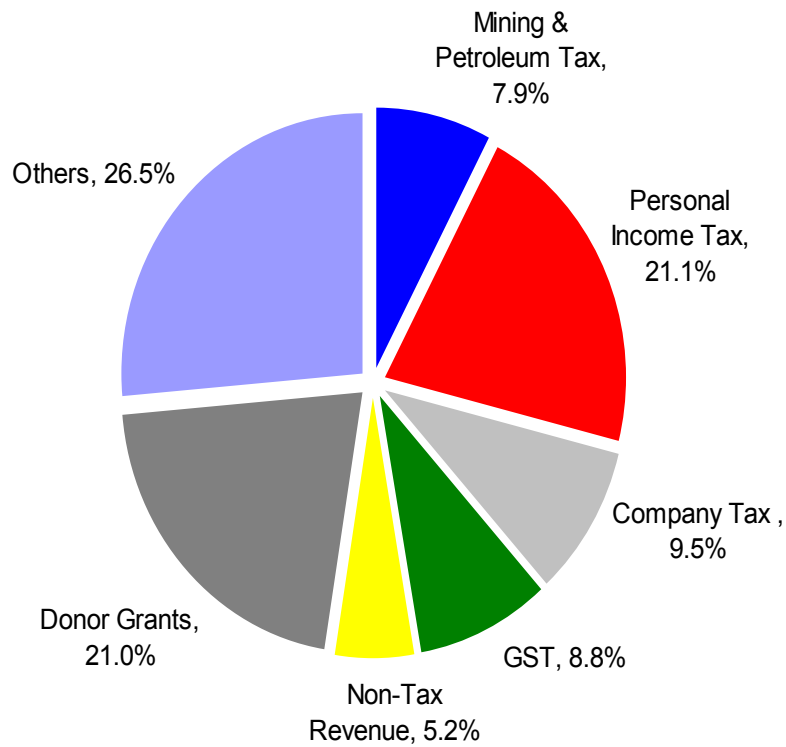


## Mineral & non-mineral Revenue

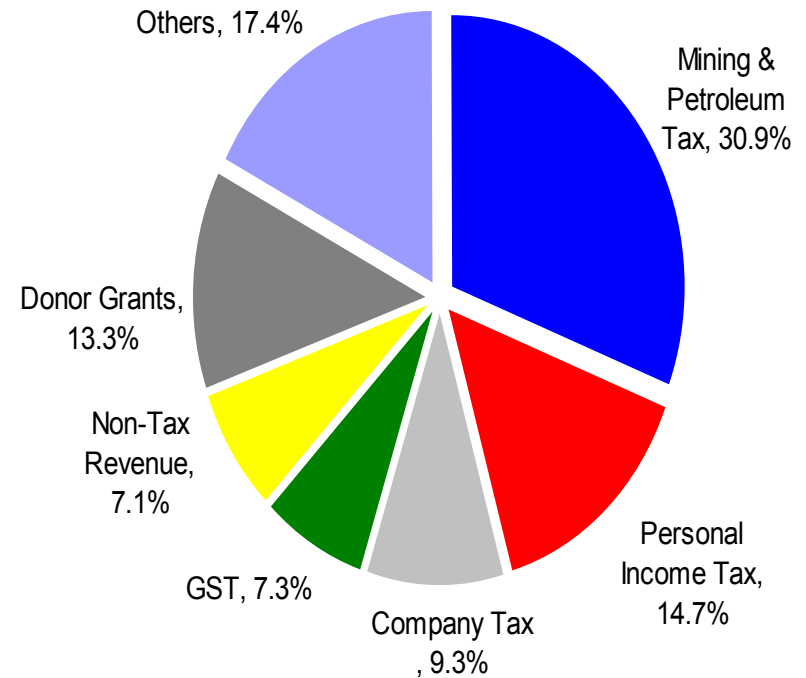


# Budget Operations

## 2002 Revenue



## 2007 Revenue

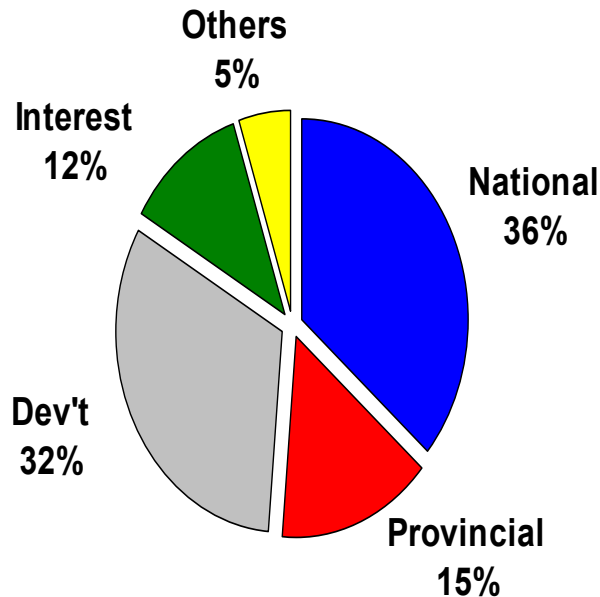


# Revenue profile 2002 to 2007

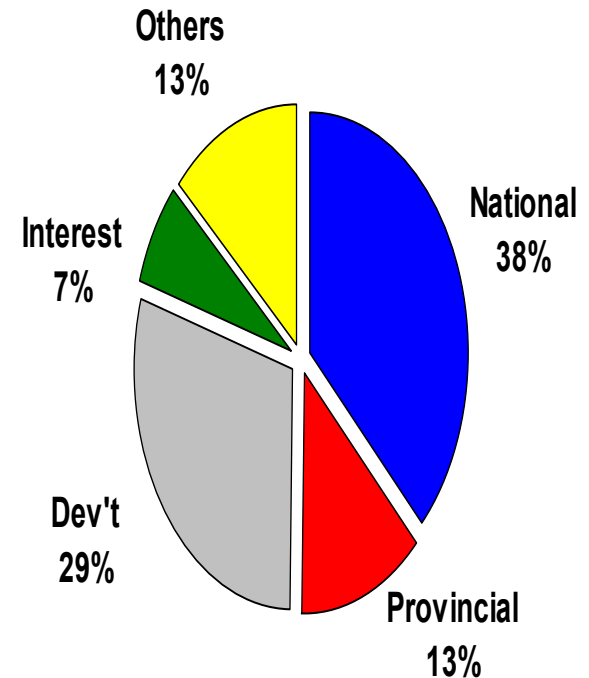
(Kina,Million)	2002	2003	2004	2005	2006	2007
	Actual	Actual	Actual	Actual	Actual	Proj
<b>TAX REVENUE</b>	<b>2,369.9</b>	<b>2,677.9</b>	<b>3,220.1</b>	<b>3,744.0</b>	<b>4,944.8</b>	<b>5,240.7</b>
TAX ON INCOME AND PROFITS	1,491.1	1,786.6	2,223.4	2,770.8	3,823.5	4,004.7
DOM. TAXES ON GOODS AND SERVICES	575.7	596.0	620.8	657.3	784.3	850.4
TAXES ON INTERNATIONAL TRADE	303.2	295.3	375.9	315.9	337.0	385.6
<b>NON TAX REVENUE</b>	<b>169.9</b>	<b>239.2</b>	<b>245.1</b>	<b>279.3</b>	<b>428.8</b>	<b>473.1</b>
<b>INFRASTRUCTURE TAX CREDITS</b>	<b>55.2</b>	<b>40.0</b>	<b>34.7</b>	<b>20.3</b>	<b>23.3</b>	<b>35.6</b>
<b>GRANTS</b>	<b>691.4</b>	<b>693.0</b>	<b>849.7</b>	<b>1,283.1</b>	<b>914.6</b>	<b>879.1</b>
<b>TOTAL REVENUE AND GRANTS</b>	<b>3,286.4</b>	<b>3,650.1</b>	<b>4,349.6</b>	<b>5,326.8</b>	<b>6,311.6</b>	<b>6,628.5</b>
<i>% of GDP</i>	28.2	29.0	34.4	34.9	37.0	35.9

# Composition of Expenditure

2002 Expenditure



2007 Expenditure



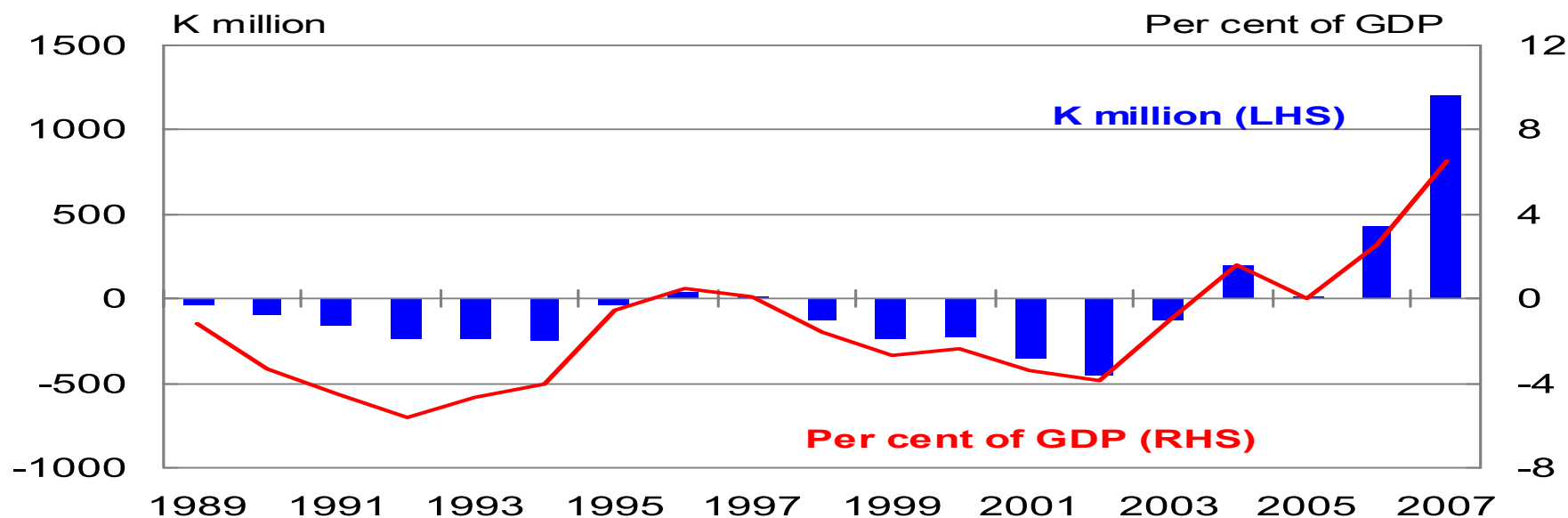
# Expenditure profile 2002 to 2007

(Kina,Million)	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Proj
<b>NATIONAL DEPARTMENTS</b>	<b>1357.1</b>	<b>1192.4</b>	<b>1555.1</b>	<b>2233.1</b>	<b>2347.9</b>	<b>2032.1</b>
Personal Emoluments (a)	574.3	618.0	682.2	690.5	698.0	848.2
Goods and Services	782.8	574.4	872.9	1142.6	967.9	1183.9
Gas Acquisition				400.0		
Supplementary Budget					682.0	
<b>PROVINCIAL DEPARTMENTS</b>	<b>562.9</b>	<b>563.3</b>	<b>656.0</b>	<b>632.5</b>	<b>765.1</b>	<b>696.6</b>
Personal Emoluments	467.2	482.9	580.2	543.4	662.5	576.0
Goods and Other Services	45.7	53.4	54.0	54.6	65.1	63.4
Conditional Grants	50.0	26.9	21.8	34.5	37.5	57.2
<b>AUTONOMOUS BOUGAINVILLE GOVERNMENT</b>	<b>25.0</b>	<b>31.3</b>	<b>35.0</b>	<b>45.3</b>	<b>46.5</b>	<b>50.9</b>
<b>TRANSFERS TO STAT. INS.</b>	164.9	178.4	207.9	206.7	234.3	221.6
<b>INTEREST PAYMENTS AND FEES</b>	436.4	739.6	377.0	332.8	307.0	387.9
<b>NET LENDING TO CSAs</b>	-4.8	-9.6	-10.4	-2.7	-4.2	-4.0
<b>TOTAL RECURRENT</b>	<b>2541.5</b>	<b>2695.5</b>	<b>2820.4</b>	<b>3447.6</b>	<b>3696.7</b>	<b>3385.1</b>
<b>TOTAL DEVELOPMENT (PIP)</b>	<b>1195.0</b>	<b>1079.0</b>	<b>1327.4</b>	<b>1871.5</b>	<b>1559.5</b>	<b>1586.8</b>
Government Funded Projects	524.5	386.0	477.6	588.4	644.9	707.7
<b>Domestic Funds</b>	<b>236.8</b>	<b>207.3</b>	<b>331.6</b>	<b>431.8</b>	<b>471.2</b>	<b>509.1</b>
Infrastructure Tax Credit	55.2	40.0	34.7	20.3	23.3	35.6
Concessional loans	97.5	82.8	94.6	134.3	150.4	163.0
Commercial loans	135.0	55.9	16.8	2.0	0.0	0.0
Donor funded Projects	670.5	693.0	849.7	1283.1	914.6	879.1
<b>ADDITIONAL PRIORITY EXPENDITURE</b>					625.0	450.0
<b>TOTAL EXPENDITURE AND NET LENDING</b>	<b>3736.5</b>	<b>3774.4</b>	<b>4147.8</b>	<b>5319.1</b>	<b>5881.2</b>	<b>5421.9</b>
% of GDP	32.1	30.0	32.8	34.8	34.5	29.4



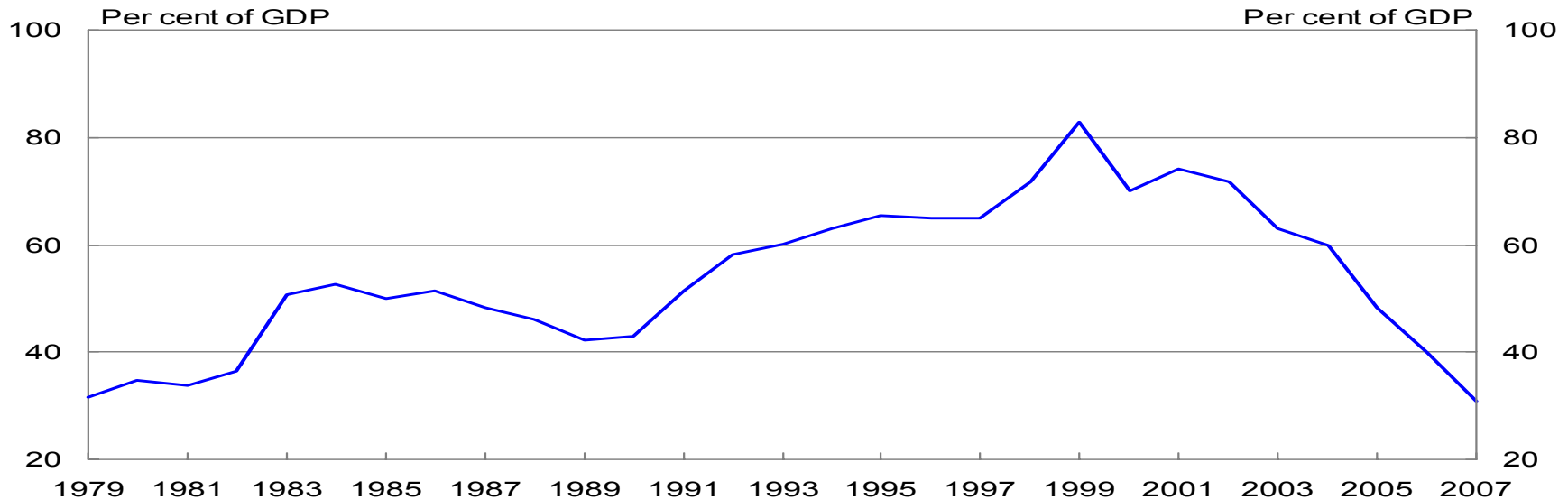
# Financing

(Kina, Million)	2002	2003	2004	2005	2006	2007
	Actual	Actual	Actual	Actual	Actual	Proj
TOTAL REVENUE AND GRANTS	3231.2	3650.1	4349.6	5326.8	6311.6	6628.5
TOTAL EXPENDITURE AND NET LENDING	3681.3	3774.4	4147.8	5319.1	5881.2	5421.9
DEFICIT (-) / SURPLUS (+)	-450.0	-124.3	201.8	7.6	430.4	1206.6
% of GDP	-3.9	-1.0	1.6	0.1	2.5	6.5



# Debt repayment

Total Public debt as a proportion of GDP



	2002	2003	2004	2005	2006	2007
Domestic	2588	3023	3181	3547	3187	3187
External	5777	4901	4410	3856	3612	3225
Total Public Debt Outstanding	8365	7924	7591	7403	6799	6412
Per cent of GDP	71.8	63.1	60.0	48.5	39.8	34.8

**Standards and Poors credit rating for PNG has been upgraded to B+**

# Summary Economic Forecasts

	2002	2003	2004	2005	2006	2007
	Actual	Actual	Actual	Actual	Actual	Proj
GDP	-0.2	2.2	2.7	3.4	2.6	5.2
Non-mining GDP	2.5	2.1	3.1	3.1	3.8	5.2
Employment growth	1.6	6.2	0.6	1.6	7.8	9.8*
Inflation(year average)	11.8	14.7	2.1	1.7	2.6	4.8
Treasury Bill rate (%)	13.3	18.3	9	4.5	5	6
Exchange Rate(USD per PGK)	0.2976	0.2573	0.3117	0.3224	0.3272	0.3378
Foreign reserves(K,million)	1378.1	1702.1	2112.2	2316	4330.7	4684.9**

Source: Treasury

\* Employment growth: *BPNG QEB*, March 2007

\*\*Foreign reserves up to May 2007



# Challenge for the new Parliament

- Macroeconomic stability and Political stability achieved .
- How do we translate these achievements for the people in both urban and rural areas?
- Need more focus on microeconomic reforms and more funding on priority expenditure items.
  - Freeing up bottlenecks to the flow of economic resources throughout the economy
  - to maximise allocative and dynamic efficiency
  - and deliver the benefits to grassroots Papua New Guineans to achieve their full potential



# Challenges at the micro-level

- Electricity-high price, low accessibility
- Telecommunications-high price, low coverage
- Water-high price, low accessibility
- Land tenure-lack of certainty
- Air transport-high price
- Road transport-need improved maintenance funding
- Shipping-high price, low accessibility
- Health-improvement to infrastructure
- Law and order-is still a big concern