

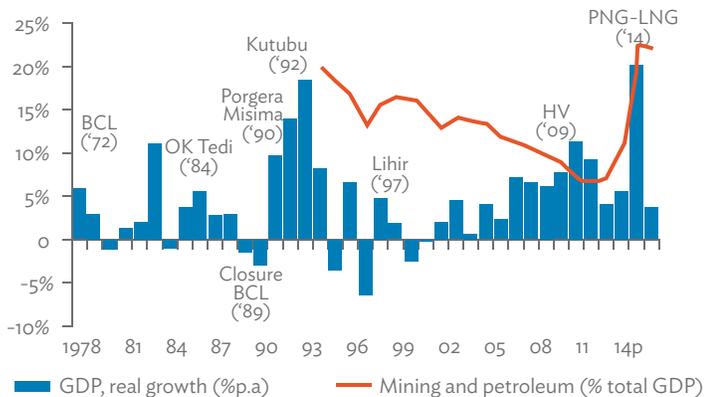
Pacific Economic Monitor

PAPUA NEW GUINEA ECONOMIC AND LABOR MARKET UPDATE, JULY 2014

Economic Update, July 2014

The commencement of LNG exports will significantly lift the size of PNG's real GDP in 2014 and 2015...

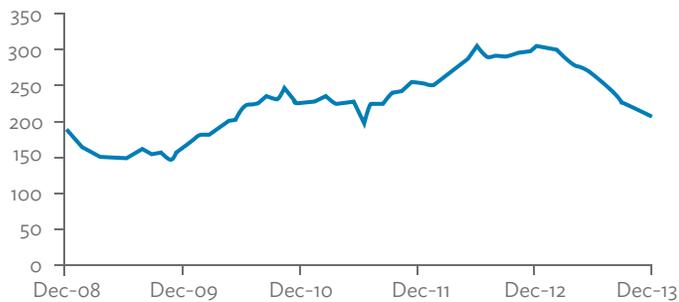
Real GDP growth contributions (%)



Source: Budget documents (various years), author's calculation.
HV = Hidden Valley. BCL = Bougainville Copper Limited.

...leading to declining demand for high value-add import products such as vehicles...

Car imports from Japan (12 month m.a.)



Source: Japan Ministry of Trade and Commerce.

The outlook for agriculture is improving, boosted by resurgent global commodity prices for key export products...

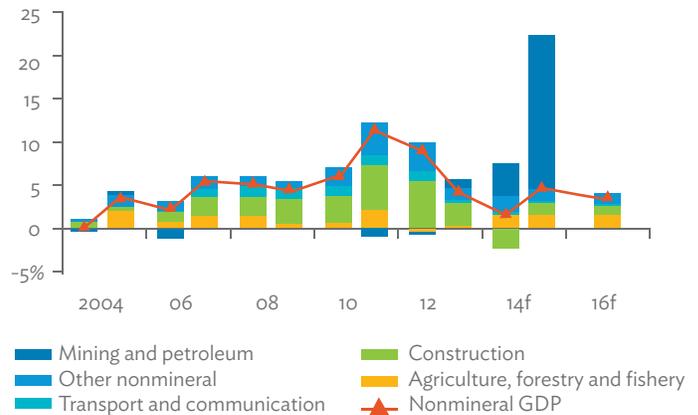
International commodity prices (\$US)



Source: World Bank, Commodity Pink Sheet, April 2014.

...however, as construction of the PNG-LNG project finishes growth in nonmineral sectors will continue to slow...

Real GDP growth contributions (%)



Source: Budget documents (various years), author's calculation.

...as well as softening growth in consumption of more basic goods like flour and chicken.

Chicken and flour imports (12 month m.a.)



Source: ABS, NZBS.

...and until recently, ongoing declines in the value of the currency against major trading partners, boosting competitiveness...

Kina to \$US exchange rate



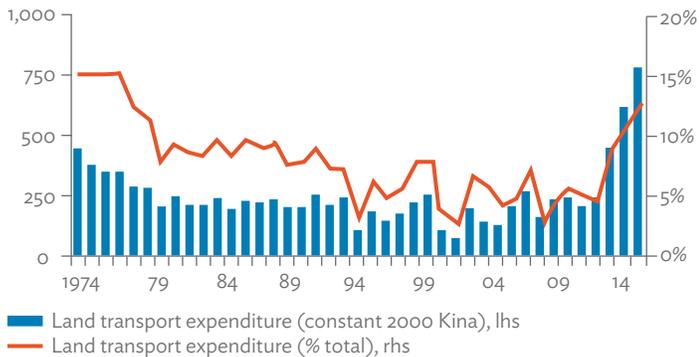
Source: www.forex.com.



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The construction sector is also supported by higher government spending, particularly on transport projects...

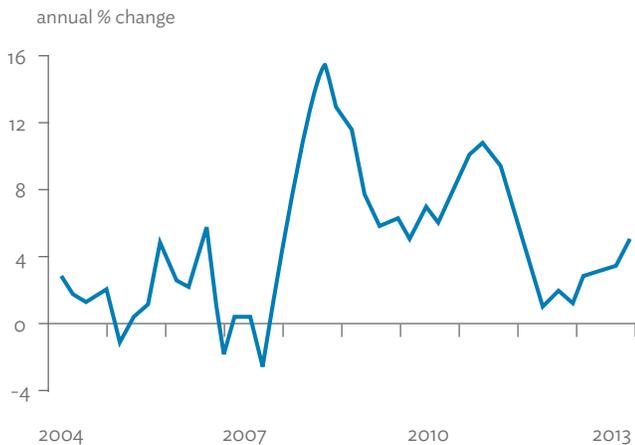
Land transport expenditure (1974-2014)



Source: Budget documents (various years), author's calculation.

Higher government spending and a declining exchange rate are contributing to resurgent inflationary pressures...

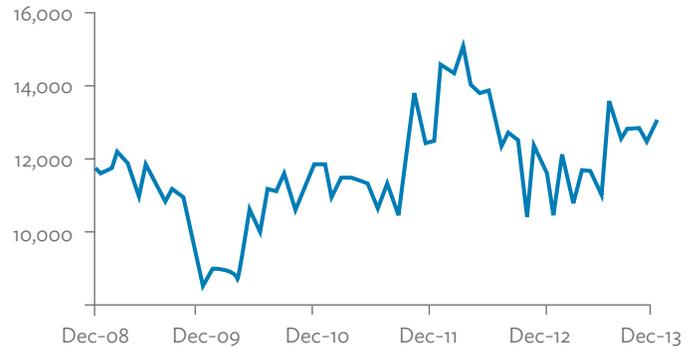
Consumer price index (% change)



Source: BPNG QEB.

...however activity still remains well below the growth that was experienced between 2009 and 2011.

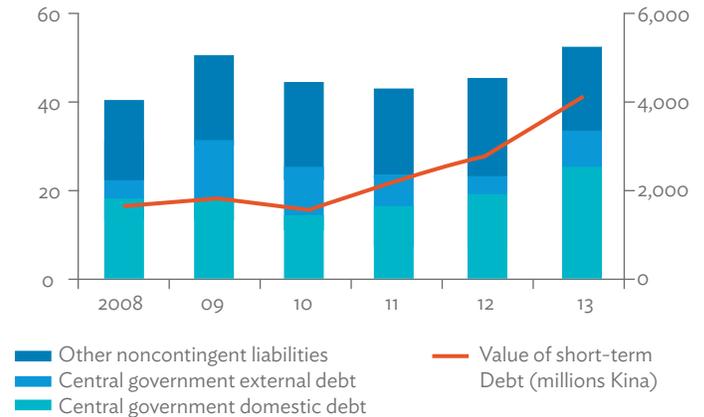
Cement imports from Australia and Japan (12 month m.a.)



Source: ABS, Japan Ministry of Trade and Commerce.

...highlighting the importance of a restrained fiscal stance which can restore fiscal buffers and maintain macrostability.

Central government debt (% of GDP)

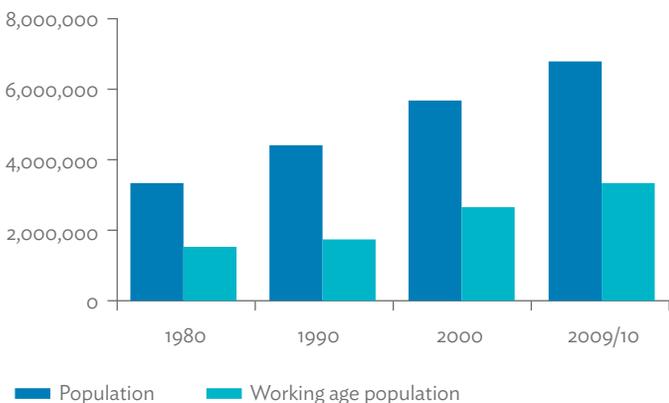


Source: IMF Article IV 2013, ADB SOE Benchmarking Study 2012, Budget Documents (various years). Short-term debt is nominal Treasury Bill liabilities.

WHAT IMPACT HAS ECONOMIC GROWTH HAD ON INCOME EARNING OPPORTUNITIES?

A major challenge for government as growth becomes centered on resource extraction will be continuing to generate job opportunities for a rapidly growing workforce.

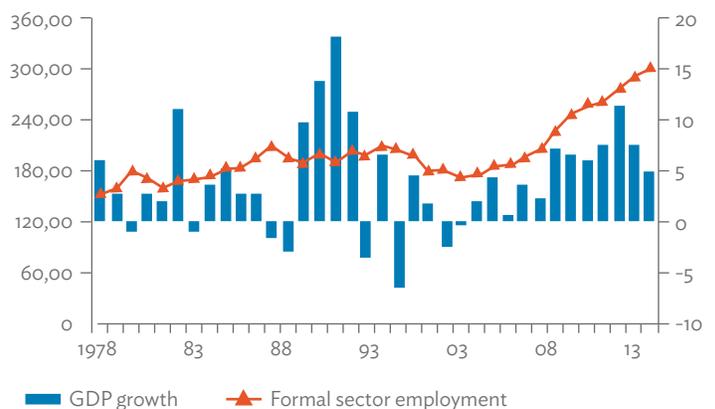
Working age population (number, 1980-2010)



Source: Census (1980, 1990, 2000), HIES 2009/10. Working age population refers to those aged 15 and over.

In contrast to previous periods of growth, the last decade has seen an unprecedented increase in the size of PNG's formal sector workforce, doubling job opportunities...

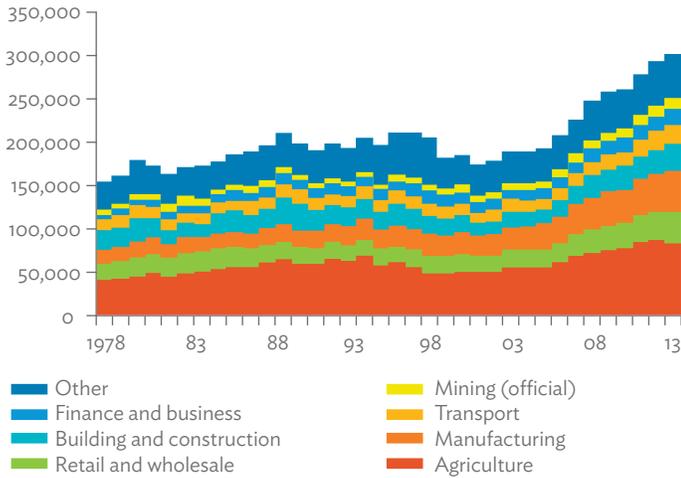
Formal private sector jobs (number) vs real GDP growth (%)



Source: McGavin (2001), BPNG QEB, author's calculations.

...with improved macroeconomic management and favorable external conditions encouraging formal employment growth across many sectors...

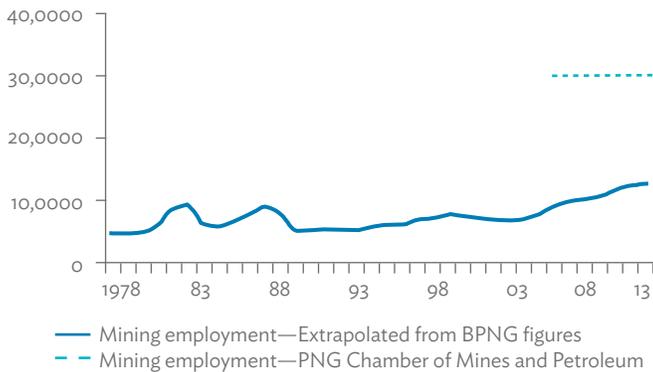
Formal sector jobs by sector (number, 1978-2013)



Source: McGavin (2001), BPNG QEB, author's calculations.

Available data may also understate true employment growth, with Chamber of Mining & Petroleum reporting a much larger workforce than official figures suggest...

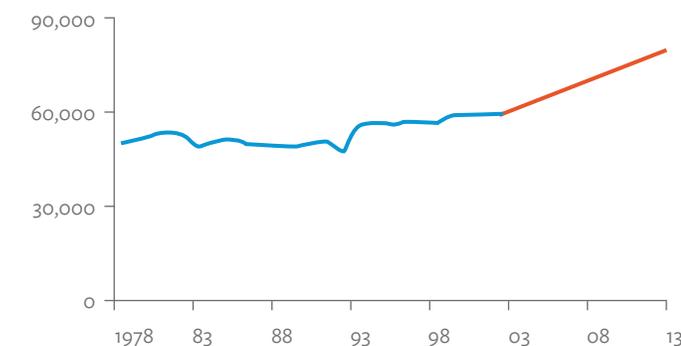
Mining employment by information source (number)



Source: PNG Chamber of Mines and Petroleum. BPNG QEB, McGavin (2001).

Public sector employment numbers are no longer published, but at last count there were around 60,000 on the government payroll (more recent estimates put the number closer to 80,000)...

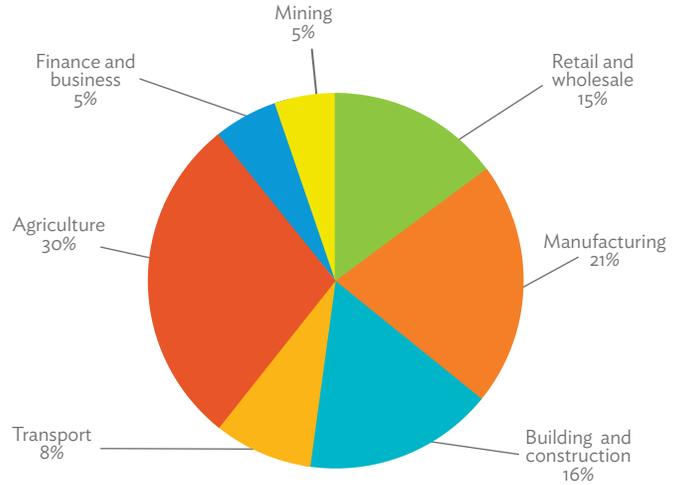
Public sector employment (1978-2002)



Source: McGavin (2001).

...supported by structural reforms in the finance, superannuation, and telecommunications sectors, laying the foundation for investment across the economy.

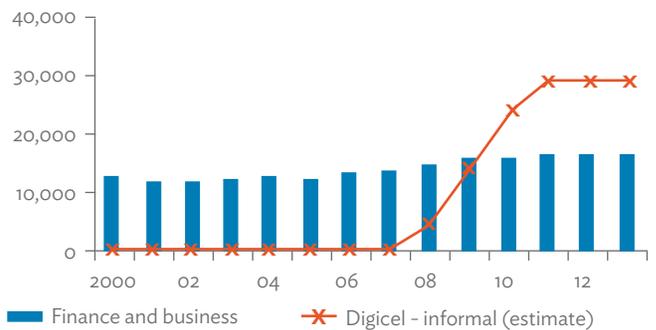
Net job creation by sector (2002-2013)



Source: McGavin (2001), BPNG QEB, author's calculations.

...also, finance and business sector does not capture the large increase in mostly informal jobs created by the entrance of Digicel.

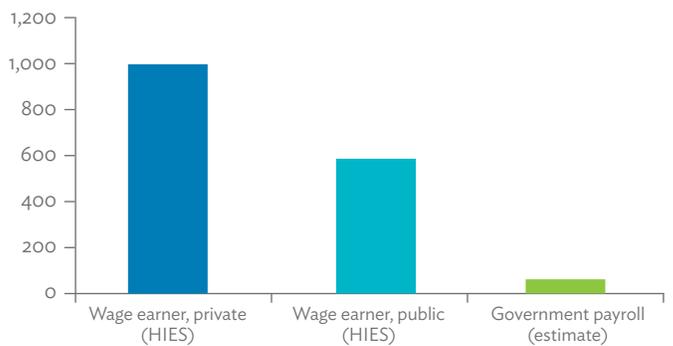
Finance and business sector employment vs. Digicel informal employment (number)



Source: IFC 2013, BPNG QEB, McGavin (2001).

...however in the 2009/10 HIES, 36% of respondents who said they were employed also said it was derived from the public sector, highlighting the large job spillovers created by state spending, and the large role of 'offbudget' government agencies.

Employment by type

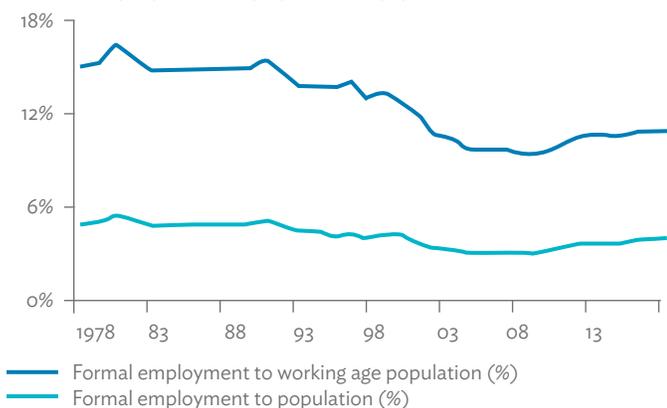


Source: HIES (2009/10), author's estimate.

Papua New Guinea Economic and Labor Market Update, July 2014

In spite of impressive growth over the last decade, the majority of PNG's population remains excluded from formal job markets...

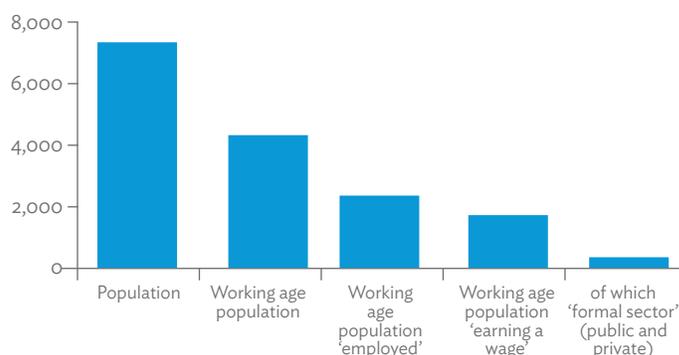
Formal employment to population (%)



Source: Census (1980, 1990, 2000), HIES 2009/10, McGavin (2001), QEB, author's calculations.

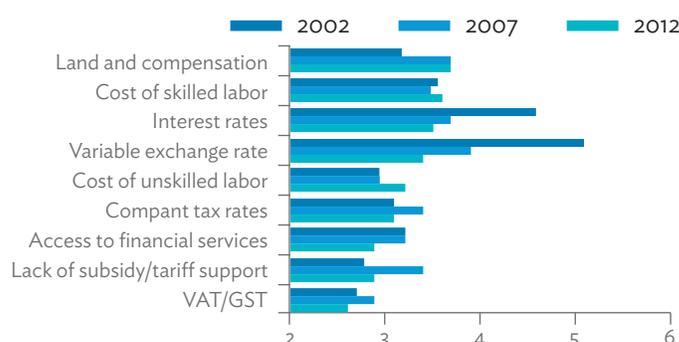
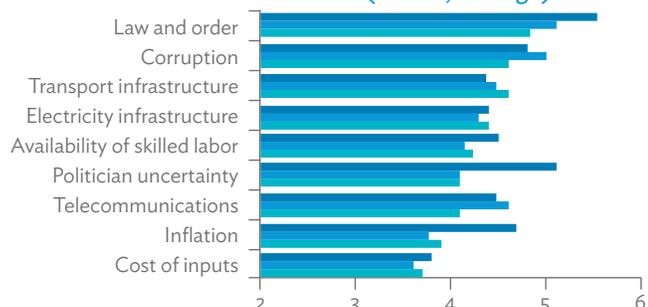
...highlighting the need to ensure inclusive growth policies remain focused on expanding access to social services and protection to informal sector workers.

Population and employment (ooo's)



Source: Census (2010), HIES 2009/10, McGavin (2001), QEB, author's calculations.

Constraints to business investment (1 = low, 6 = high)



What does the private sector say it needs to generate jobs?

Data from the ADB-Institute of National Affairs business survey shows that the stabilization of key macroeconomic variables such as inflation, interest rates, and the exchange rate have been the major drivers of improved business conditions during the past decade. Government's focus on the four key development enablers (infrastructure, education, health, and law and order) appears to be well targeted at addressing those constraints of most concern to business. However, implementation remains a key issue, and the impact of government's spending will be far higher if accompanied by well-designed structural reforms to make it easier to do business in PNG. Likewise, ensuring that future spending growth remains within the parameters of the Medium Term Fiscal Strategy (2012-2017) will be essential in maintaining macroeconomic stability and maintaining a stable macroeconomic and investment environment.

Data Sources: Data on PNG's labor market are from a variety of sources including 1980, 1990, 2000 and 2010 census; the 2009/10 Household Income and Expenditure Survey; Bank of Papua New Guinea's Quarterly Economic Bulletin (QEB); McGavin, P. 2001. Labor Transformation in PNG, INA, Port Moresby; as well as industry sources and informal estimates. The quality of these data sources are variable in nature and do not necessarily present a consistent picture of labor market trends. Against this background, the analysis seeks to identify a number of important trends from available information. Wherever possible data limitations have been highlighted in the text however readers should remain aware of limitations in data accuracy.

This Update is produced as an addendum to the July 2014 edition of ADB's Pacific Economic Monitor, a biannual update on Pacific economic and fiscal conditions. The commentary provided is intended to provide a quick reference for key trends and data to stimulate economic policy discussions. All due care has been taken in data compilation, which comes from a range of sources, however any mistakes are the authors' own. Questions and comments are welcome and can be e-mailed to abatten@adb.org.

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Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to approximately two-thirds of the world's poor: 1.6 billion people who live on less than \$2 a day, with 733 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

In this publication, "\$" refers to US dollars.

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