



UNDER EMBARGO UNTIL 07.00 GMT, WEDNESDAY, 6 AUGUST 2014

PAPUA NEW GUINEA

Country briefing notes

Slower economic growth

- GDP growth softened to 5.1% in 2013, from 8% in 2012, largely due to the slowdown in investment as a \$20 billion liquefied natural gas project nears completion. Growth in the construction sector halved to 12% in 2013.
- Declining global commodity prices depressed export receipts. Gold and petroleum exports to Australia fell by 32% in the first quarter of 2013. The current account shortfall stood at around a quarter of GDP in 2013.
- On the outlook, GDP growth is projected to rebound to 6.2% in 2014. Production of natural gas, increased government spending as well as a revival in mining output, as major mines return to normal production following disruptions in 2013, will help propel the economy.

Inflation increased notably

- The inflation rate jumped to 4.7% in 2013, from 1.6% in 2012. The weaker domestic currency against the United States dollar and the currencies of the country's key trading partners was a major contributing factor.
- The steep price rise took place amid moderating international food and fuel prices, which helped lower inflation in several other Pacific island developing economies in 2013.

Macroeconomic policy developments

- Papua New Guinea recorded a higher budget deficit of 8.7% of GDP in 2013, as spending on growth-enhancing areas such as infrastructure, education, health, and internal security rose by 38%.
- Despite higher government spending in 2013, the country faces challenges related to implementation capacity as public agencies struggled to spend growing budgetary resources.

- Monetary policy stance was stable for most of 2013, after policy rate cuts of 150 basis points during September 2012 and March 2013.

Policy reform agenda

- The national reform agenda focuses on supporting greater private sector participation in the economy. Among others, key reform strategies include developing more efficient and competitive markets and streamlining business regulations. This has improved the business environment.
- Papua New Guinea remains committed to public sector reforms. As part of the rightsizing public sector reform, the Government is expected to amalgamate government agencies with duplicate functions in 2014.

Policy challenges faced by Pacific island developing economies

- Pacific island developing economies continue to face the growing challenge of providing basic services to the poor. The situation is compounded by falling levels of official development assistance, lower agricultural productivity, growing populations, high youth unemployment, and low and uneven economic growth.
- Pacific island countries also have to deal with the increasing threat from climate change. Climate change, including ocean acidification and sea-level rise, affects both the natural environment and economic and social development, particularly for vulnerable populations.
- Pacific island countries need to adopt policies that develop their comparative advantages in agriculture, tourism and fisheries in a sustainable fashion. These policies also need to promote jobs, particularly for the large pool of unemployed youth.
- To enhance job-rich growth, Pacific island economies need more private sector investment, especially in niche markets that can overcome market size and distance disadvantages.
- Development of rural areas and outer islands through the provision of necessary infrastructure and support for leveraging sustainable resource-based sectors will foster improved livelihoods and mitigate rural-to-urban migration.

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