



Bank of Papua New Guinea

Presentation at the CIMC AGRICULTURE SECTORAL COMMITTEE

***“IMPACT OF FOREIGN EXCHANGE ON
AGRICULTURE EXPORTS AND IMPORTS”***

**by
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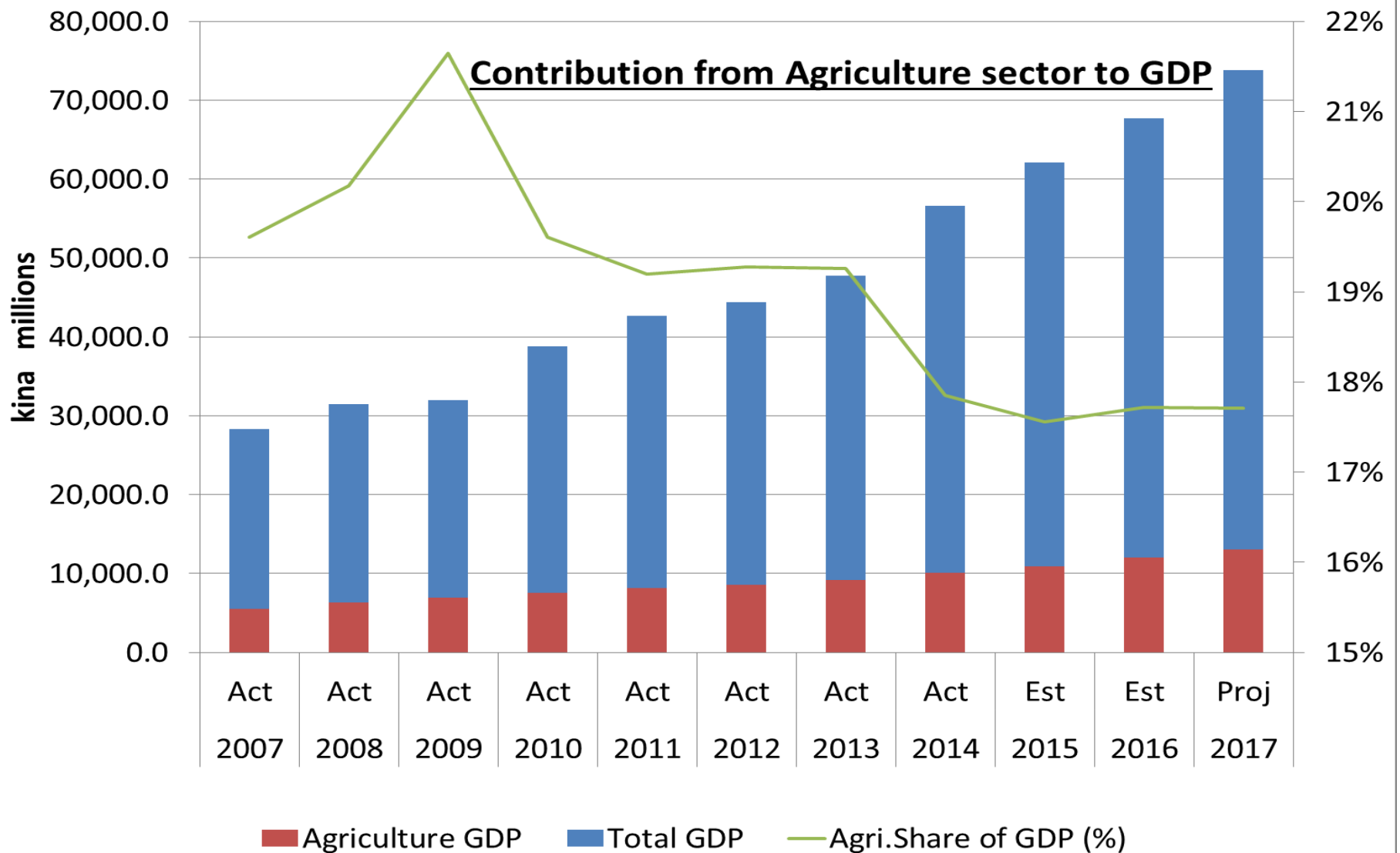
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**17th July 2018
Crown Plaze Hotel, Port Moresby**



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Outline of presentation

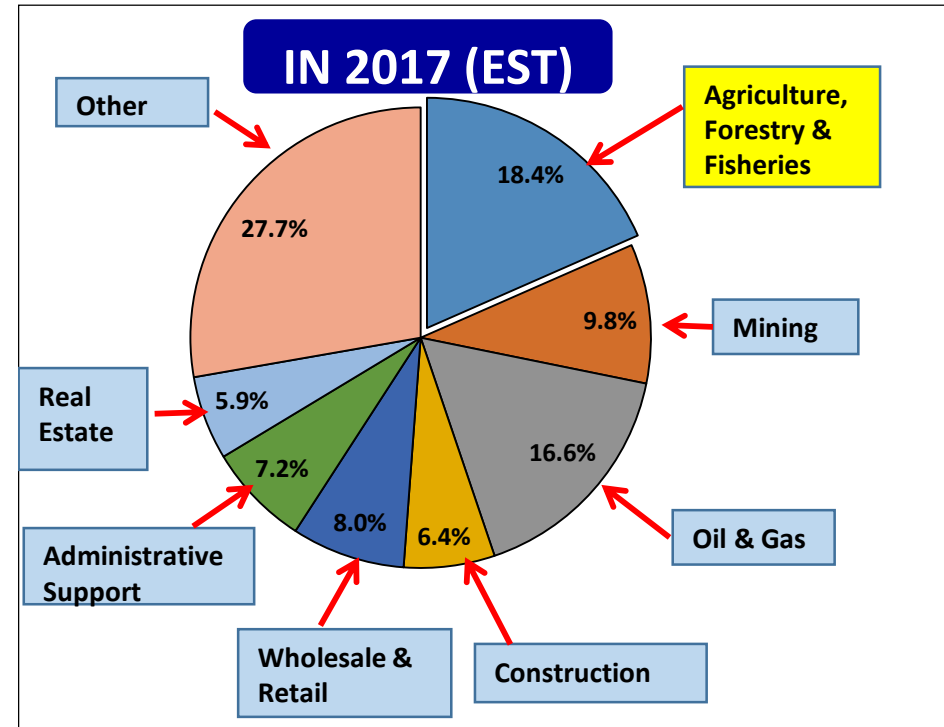
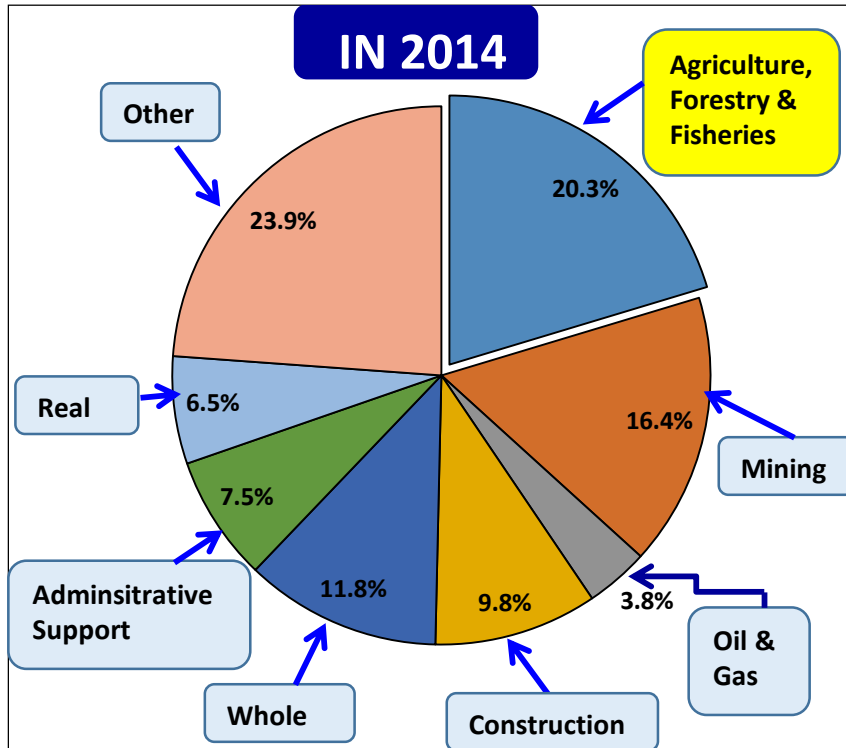
1. Contribution of Agriculture sector to GDP
2. Lending to Agriculture sector
3. Balance of Payments
4. Agriculture Exports & Imports
5. Foreign Exchange Market Developments



- Agriculture sector is growing very slowly in value terms
- But agricultures sector contribution to total GDP has declined
- The Agriculture sector needs an effective policy response to diversify the economy.



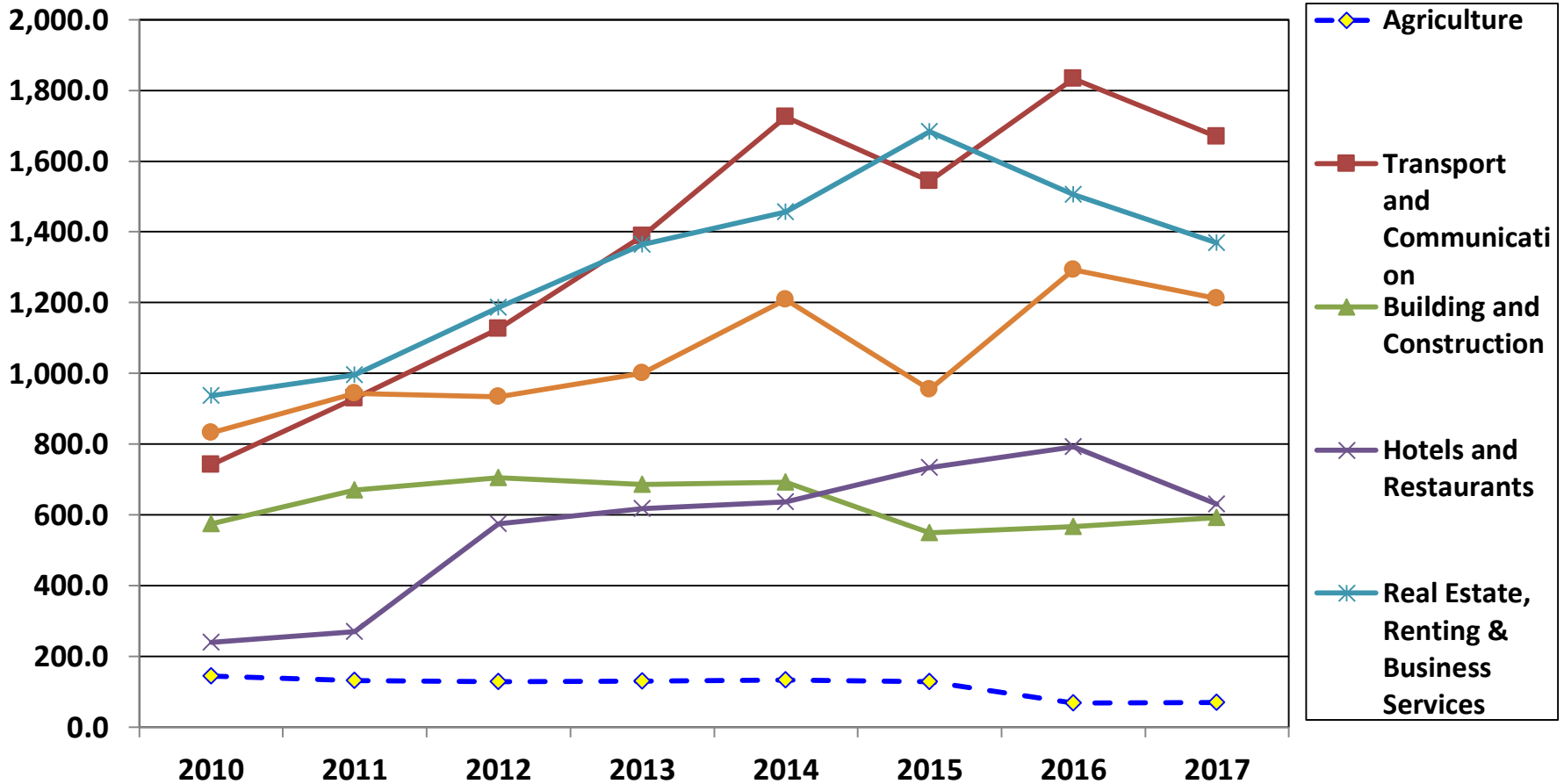
CONTRIBUTION OF AGRICULTURE SECTOR (% OF GDP)



- Agriculture share alone would be smaller, exacerbated by the decline in contributions from coffee, cocoa, copra and copra oil sub sectors. The decline is due to change in ownership structure from plantation to smallholding. Also, lack of support in extension services provided by the Government to the smaller holders resulting in the shrinking share of agriculture sector's contribution to GDP
- Other sectors share of 27.7 percent comprised of other sectors contributions that are grouped together



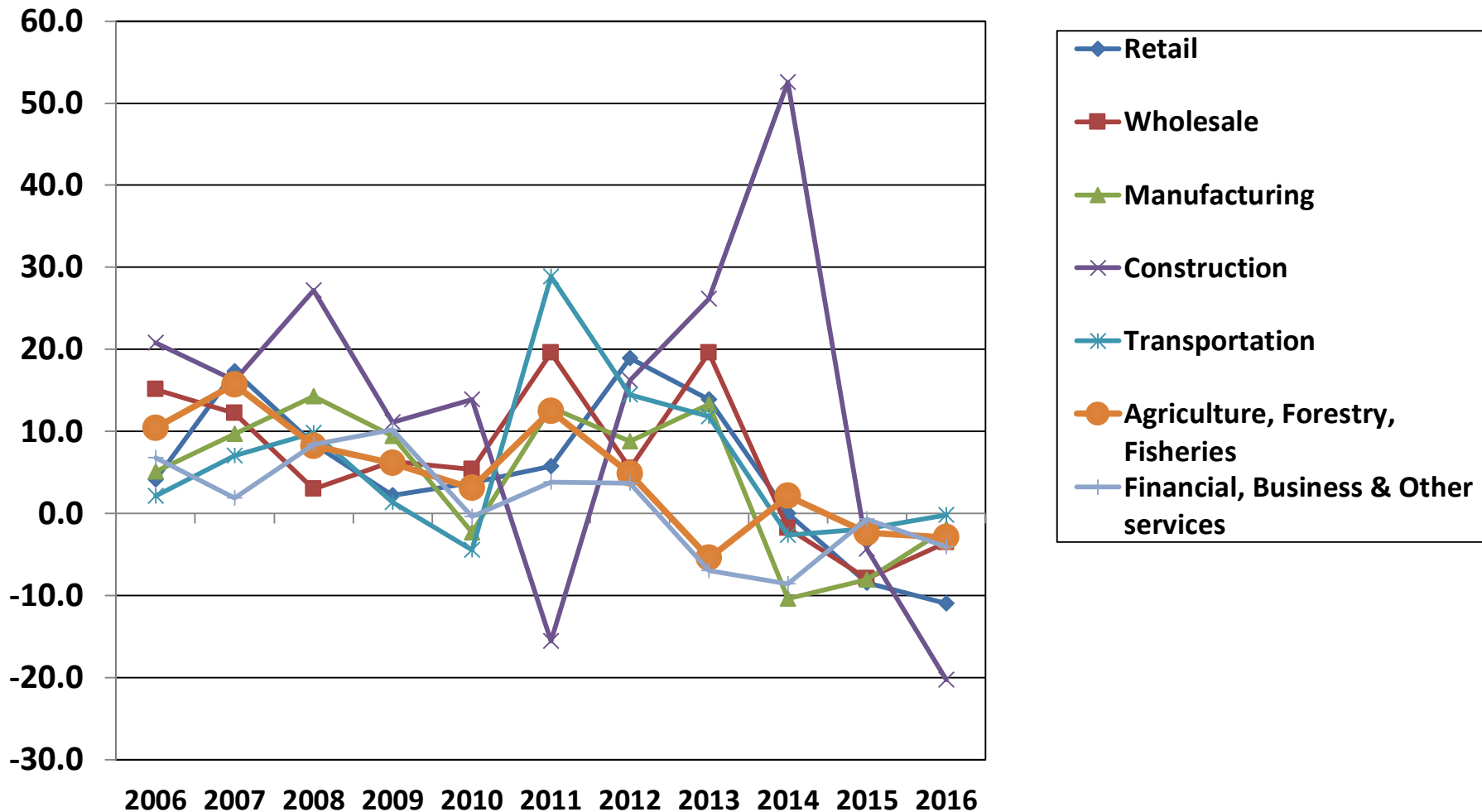
Lending by sector including to Agriculture K' Million



Lending to the Agriculture sector over the years to support production is dismal due to the risks associated with collateral issues. This stems from shift in ownership structure from Plantation to smallholding and reflected through a drop in foreign exchange earnings as well.

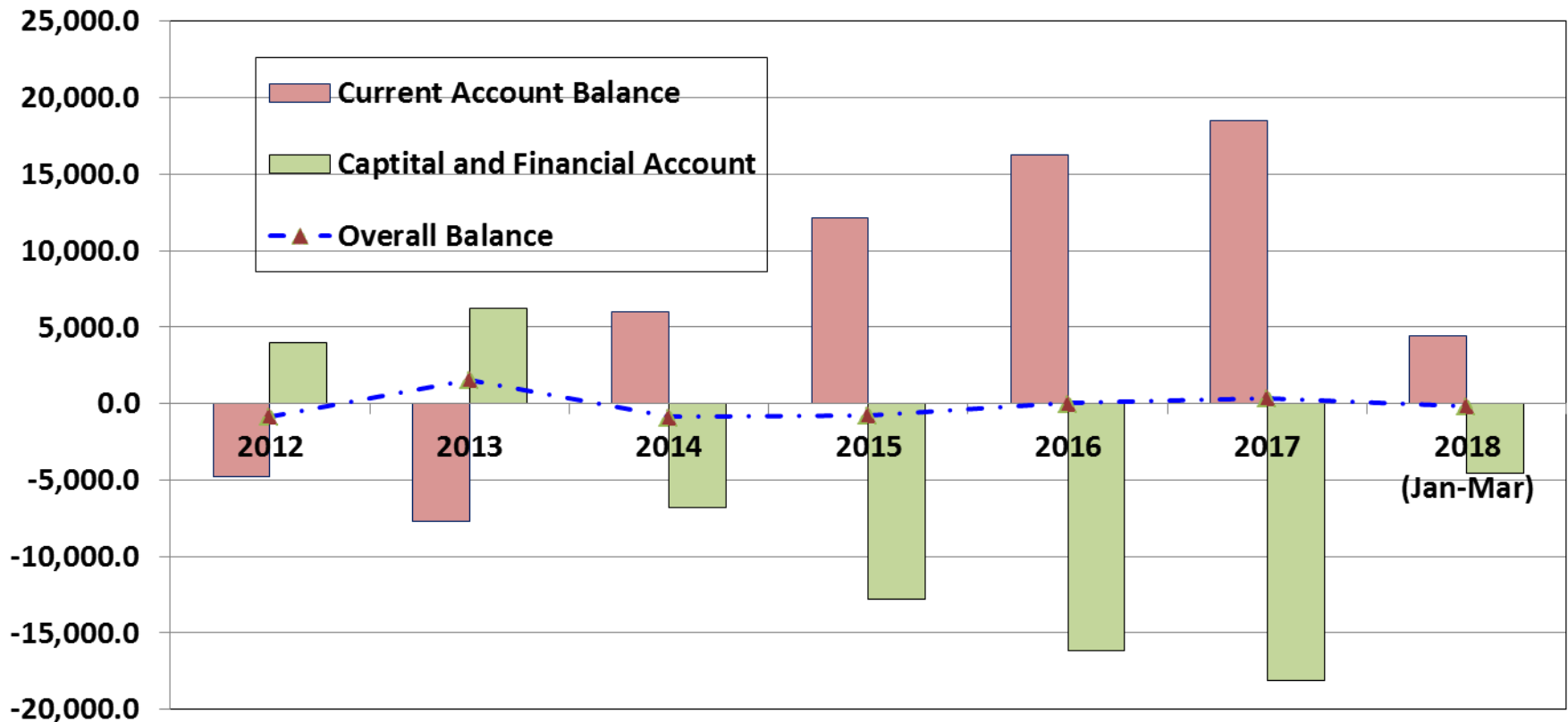


EMPLOYMENT RATE BY INDUSTRY WITH AGRICULTURE INCLUDED TOGETHER AS AGRICULTURE, FORESTRY AND FISHERIES SECTOR





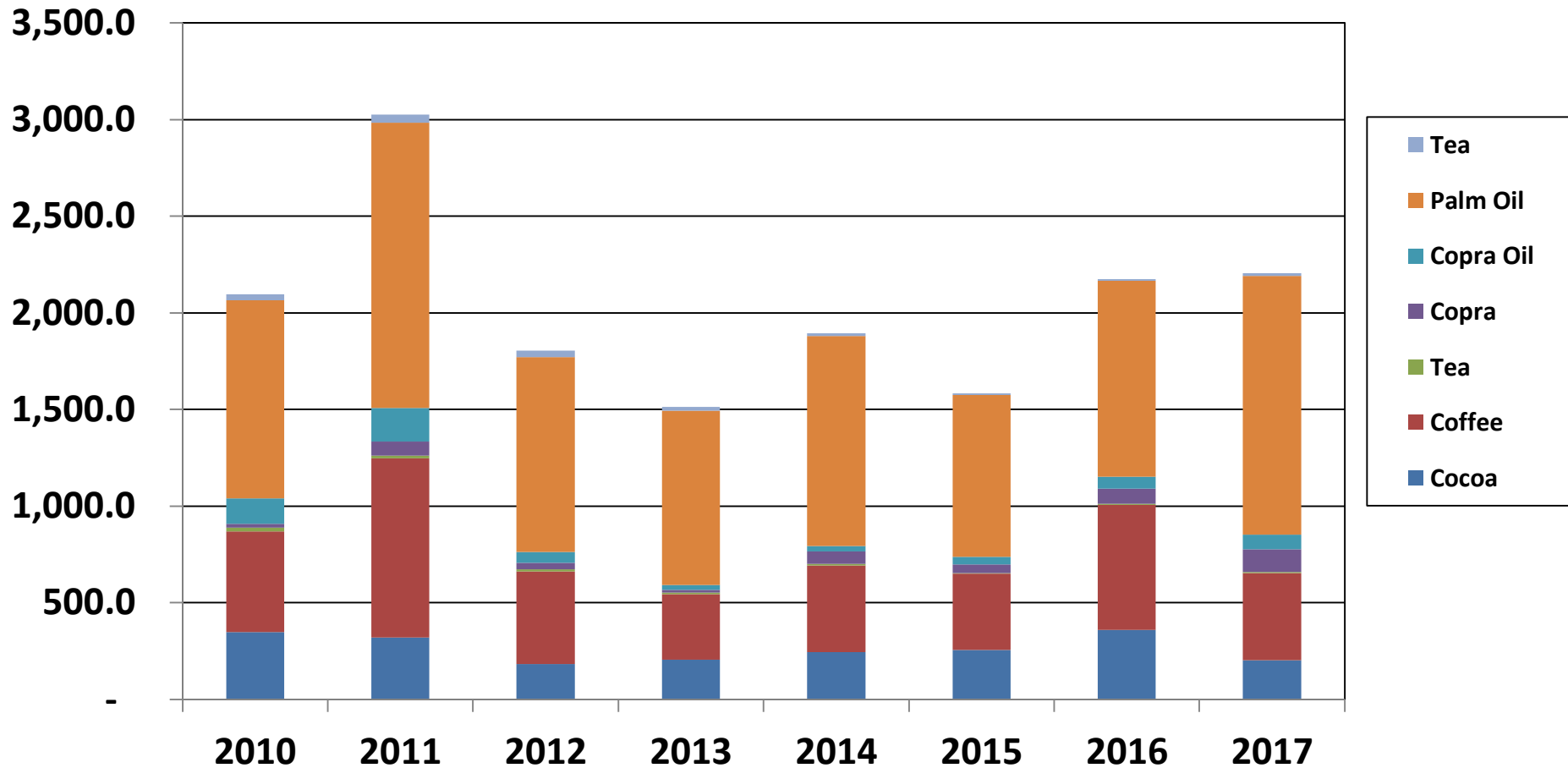
BALANCE OF PAYMENTS



- **LARGE CURRENT ACCOUNT SURPLUS IS NOT TRANSLATING INTO INCREASED FX INFLOWS INTO THE FOREIGN EXCHANGE MARKET**
- **FUNDS ARE HELD IN OVERSEAS FOREIGN CURRENCY ACCOUNTS UNDER PROJECT DEVELOPMENT AGREEMENTS**



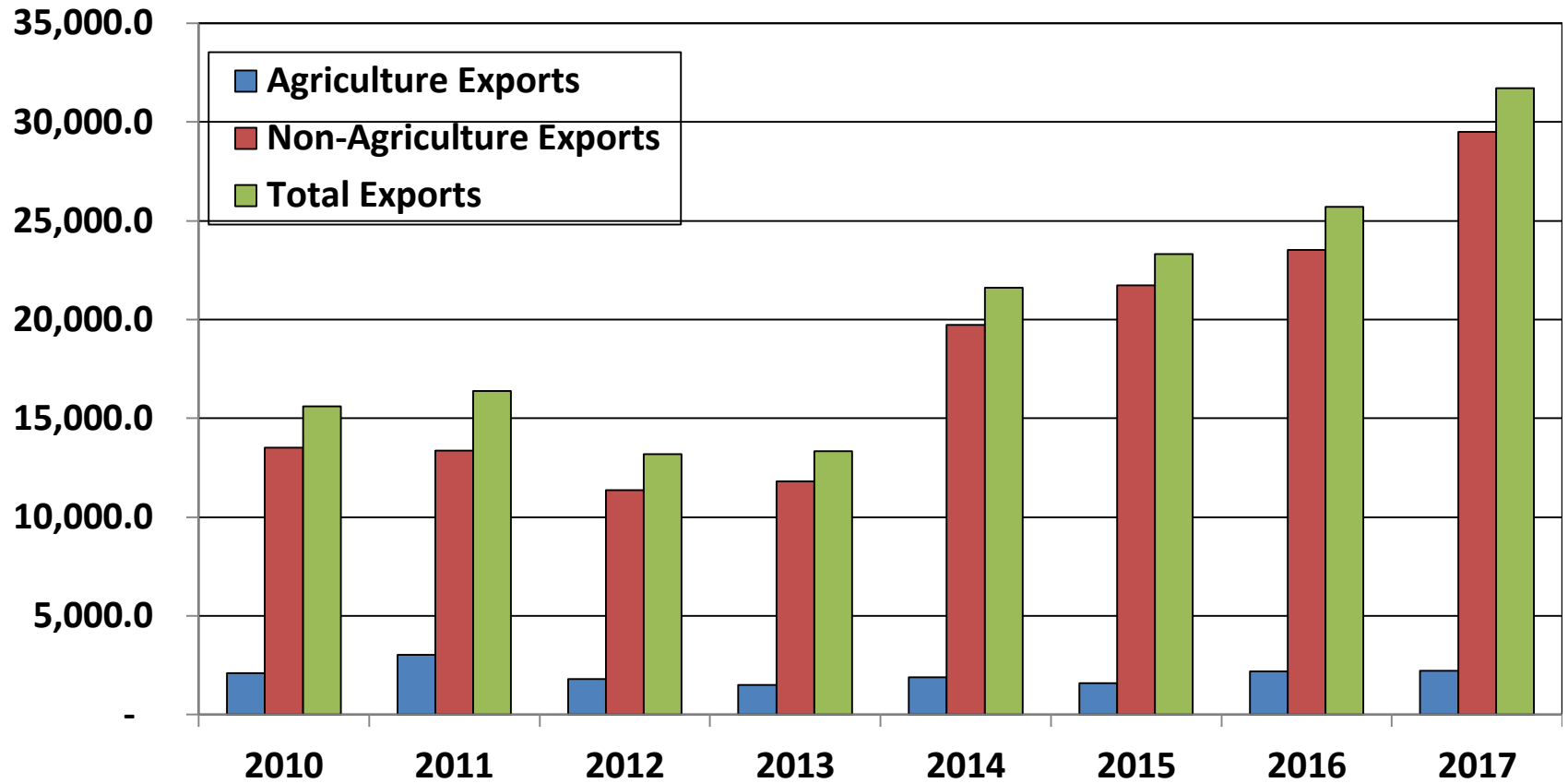
Total Agricultural Export and by Commodity - K' Million





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Agricultural Exports, Non-Agricultural and Total Exports K' Million

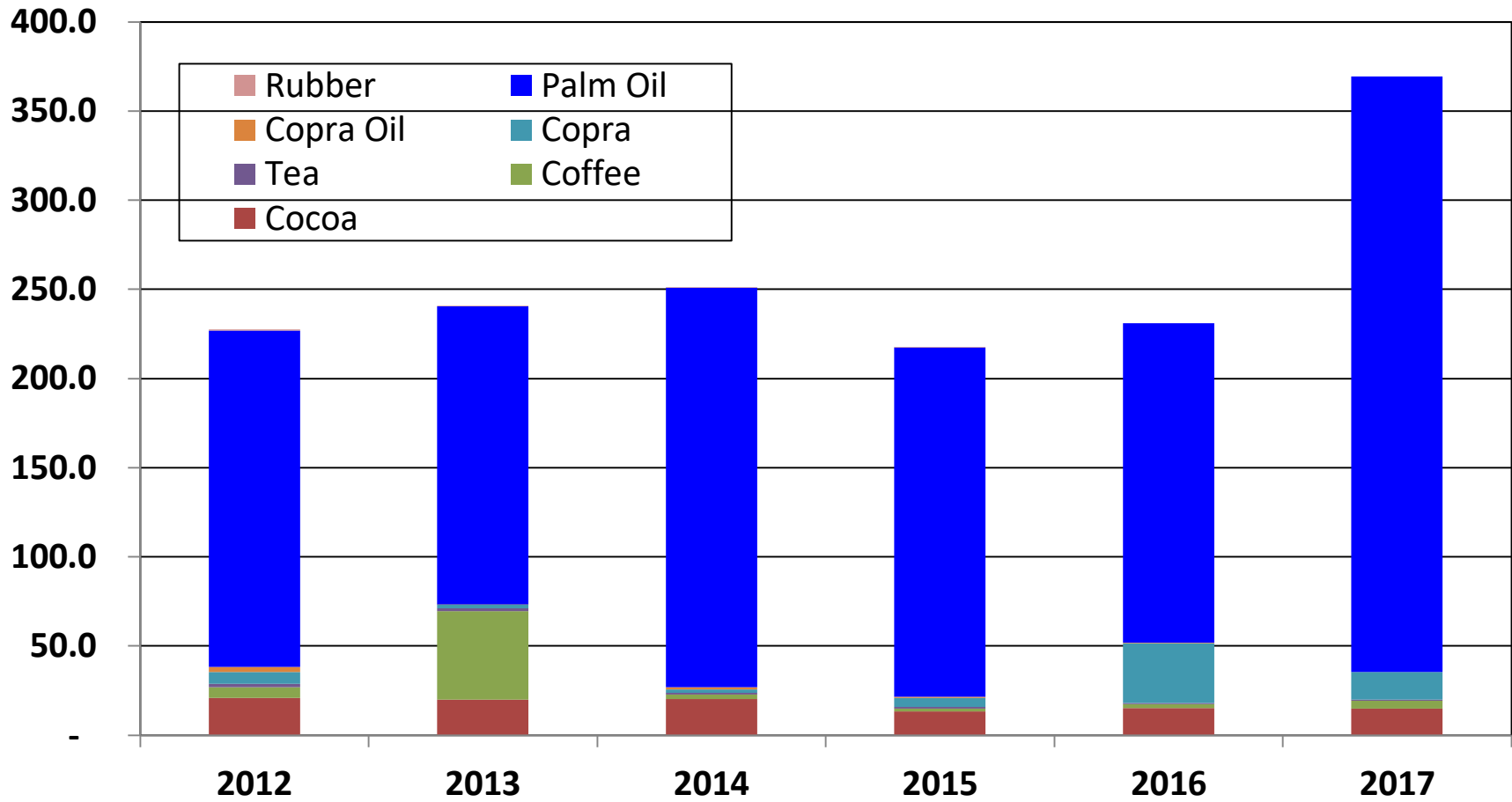


Agriculture	13.4%	18.5%	13.7%	11.3%	8.8%	6.8%	8.5%	6.9%
Non-Agriculture	86.6%	81.5%	86.3%	88.7%	91.2%	93.2%	91.5%	93.1%



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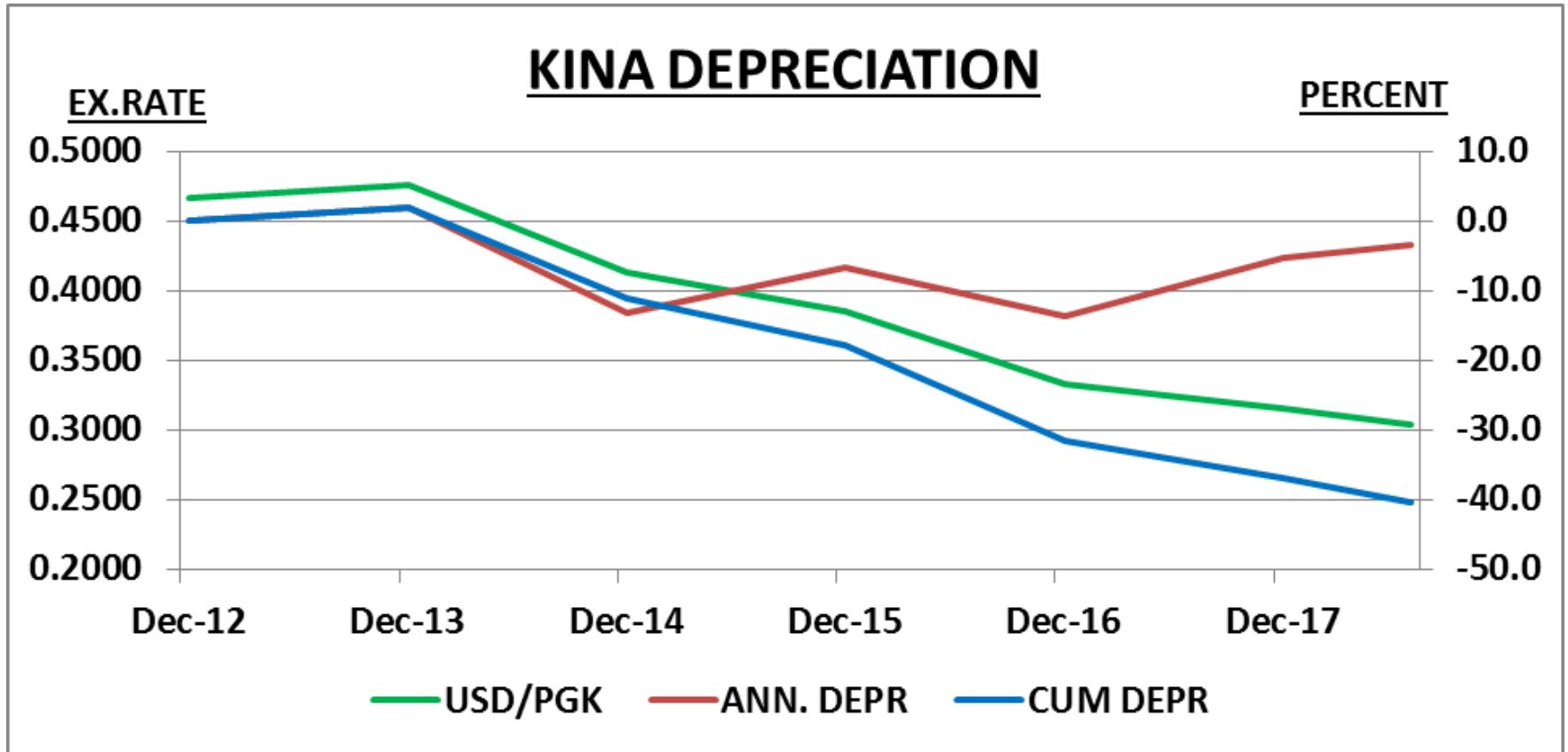
Total Agricultural Import and by Commodity (subsector) K' Million



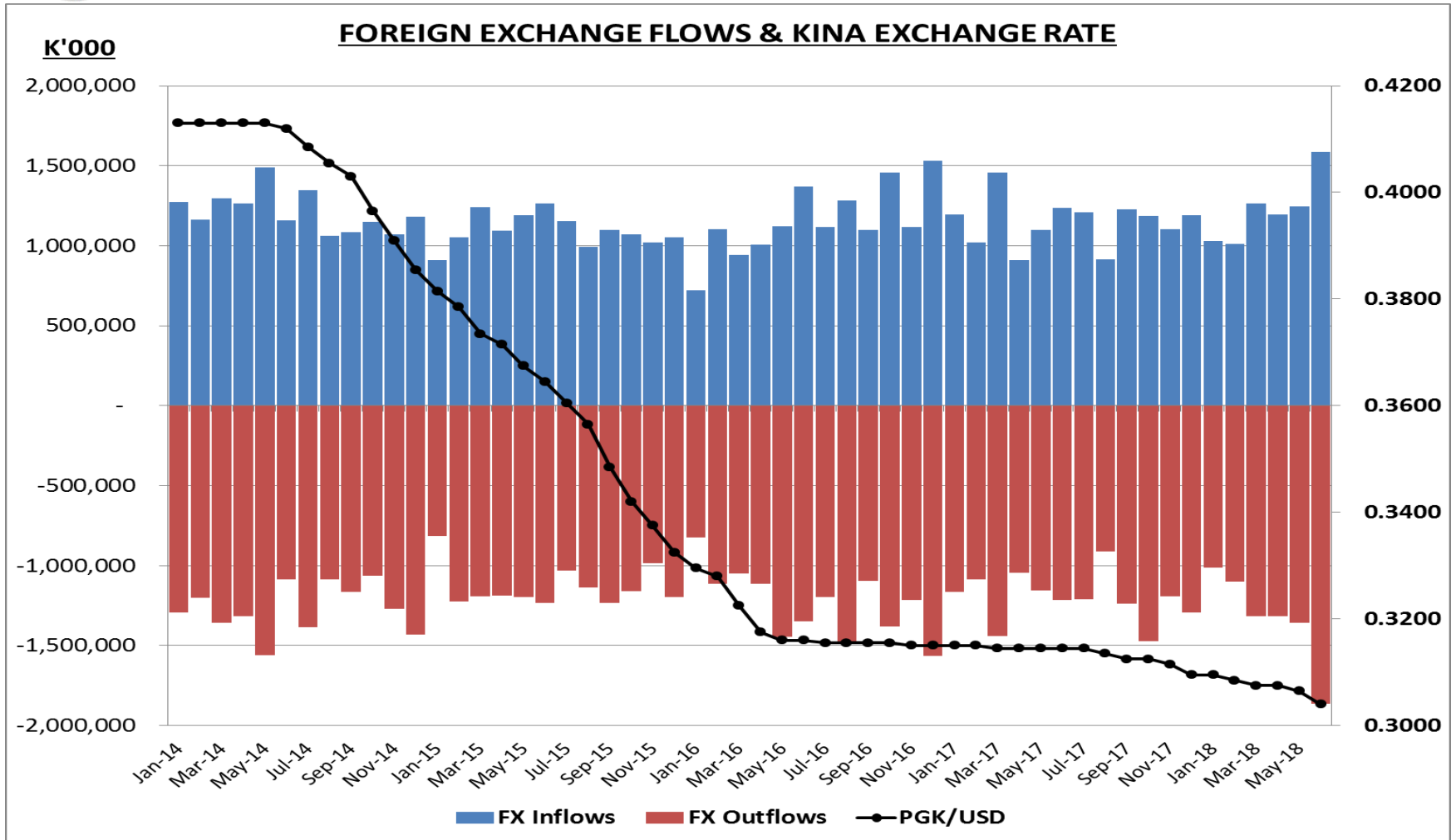


EXCHANGE RATE

KINA DEPRECIATION



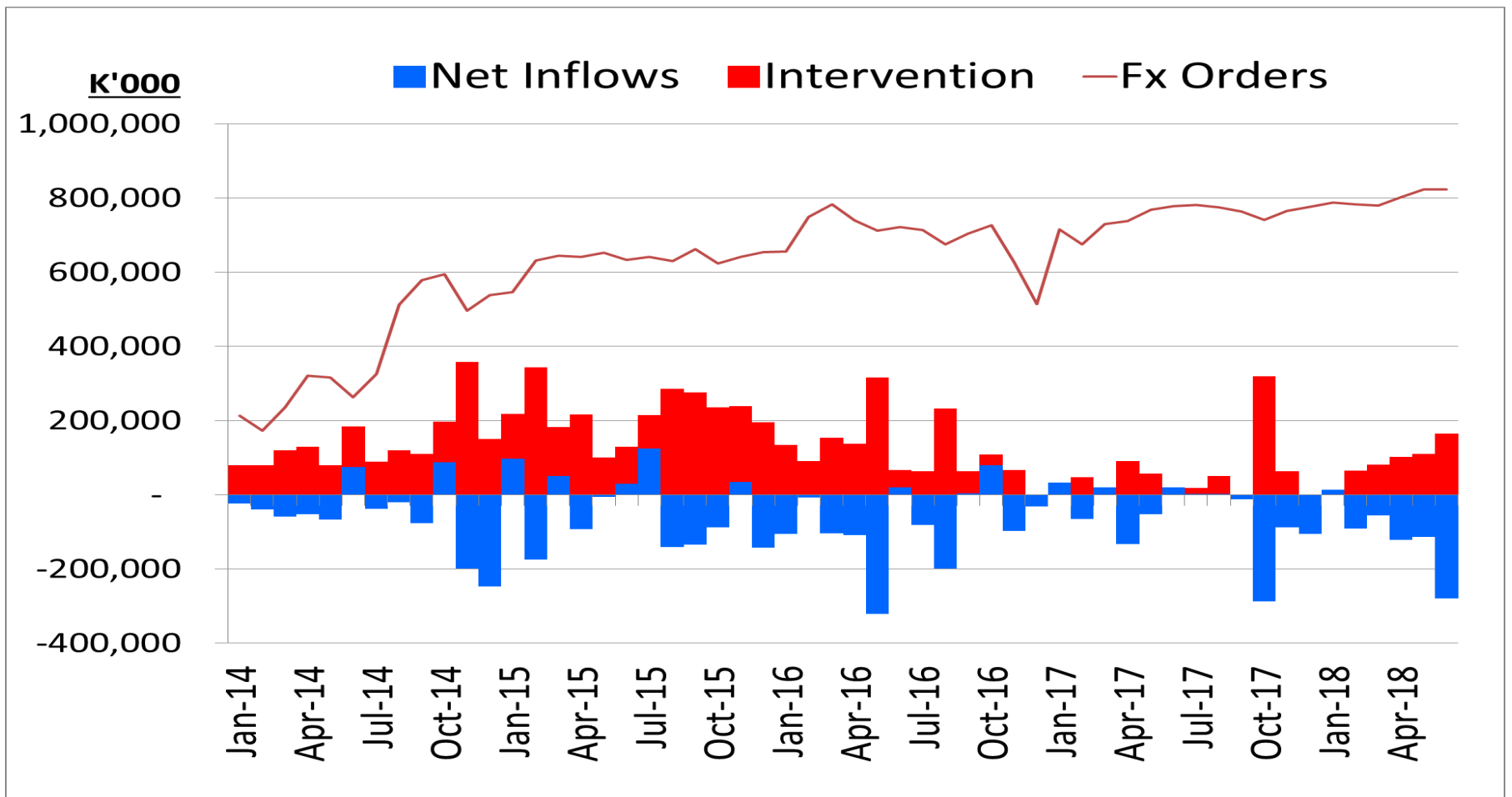
- **PGK Depreciated by 40 % since 2012**
- **Favourable exchange rate levels to encourage Agriculture Sector to increase production and exports**



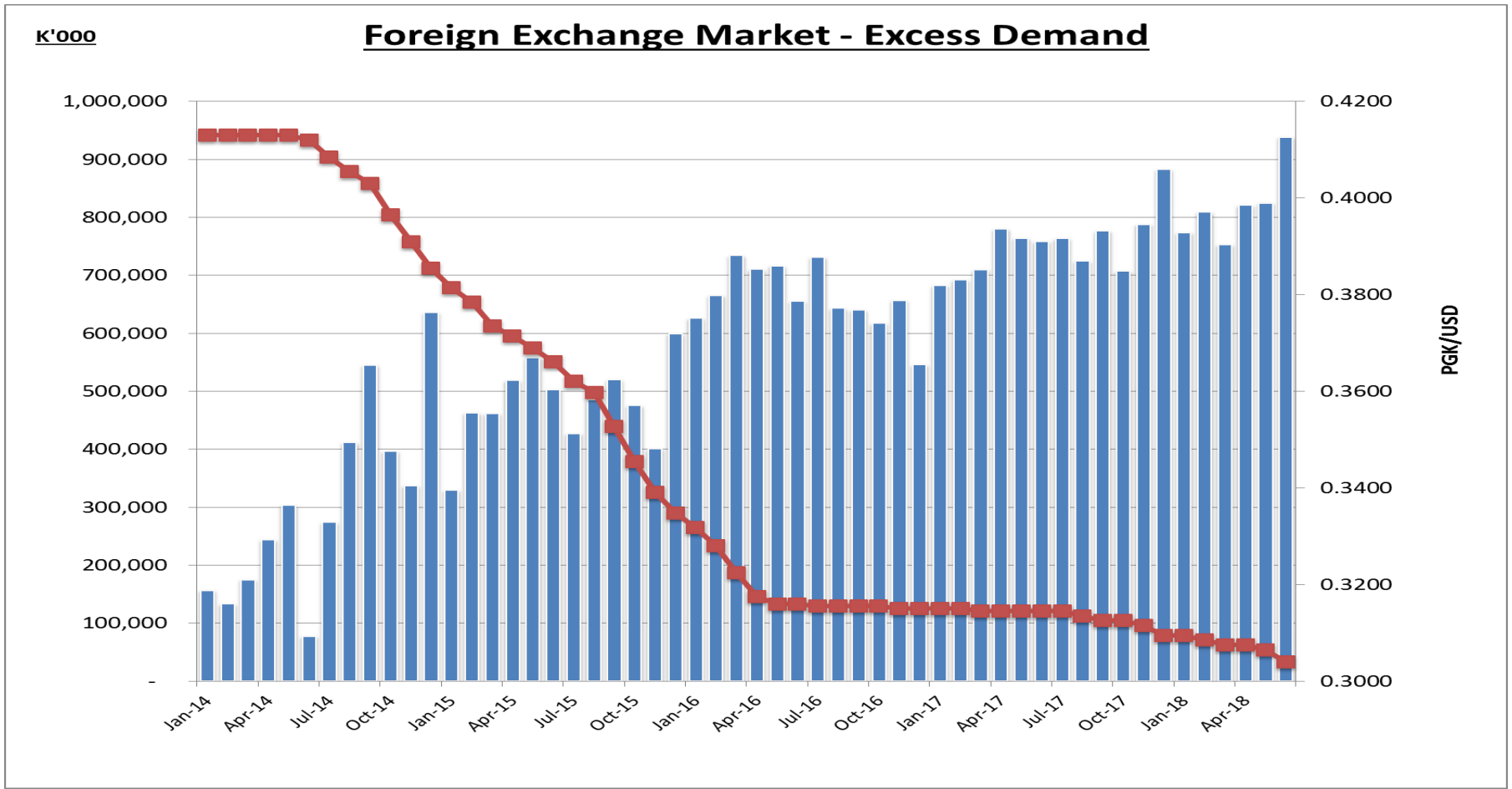
- Foreign Exchange inflows have been consistent throughout these years
- Why is the Kina depreciating?



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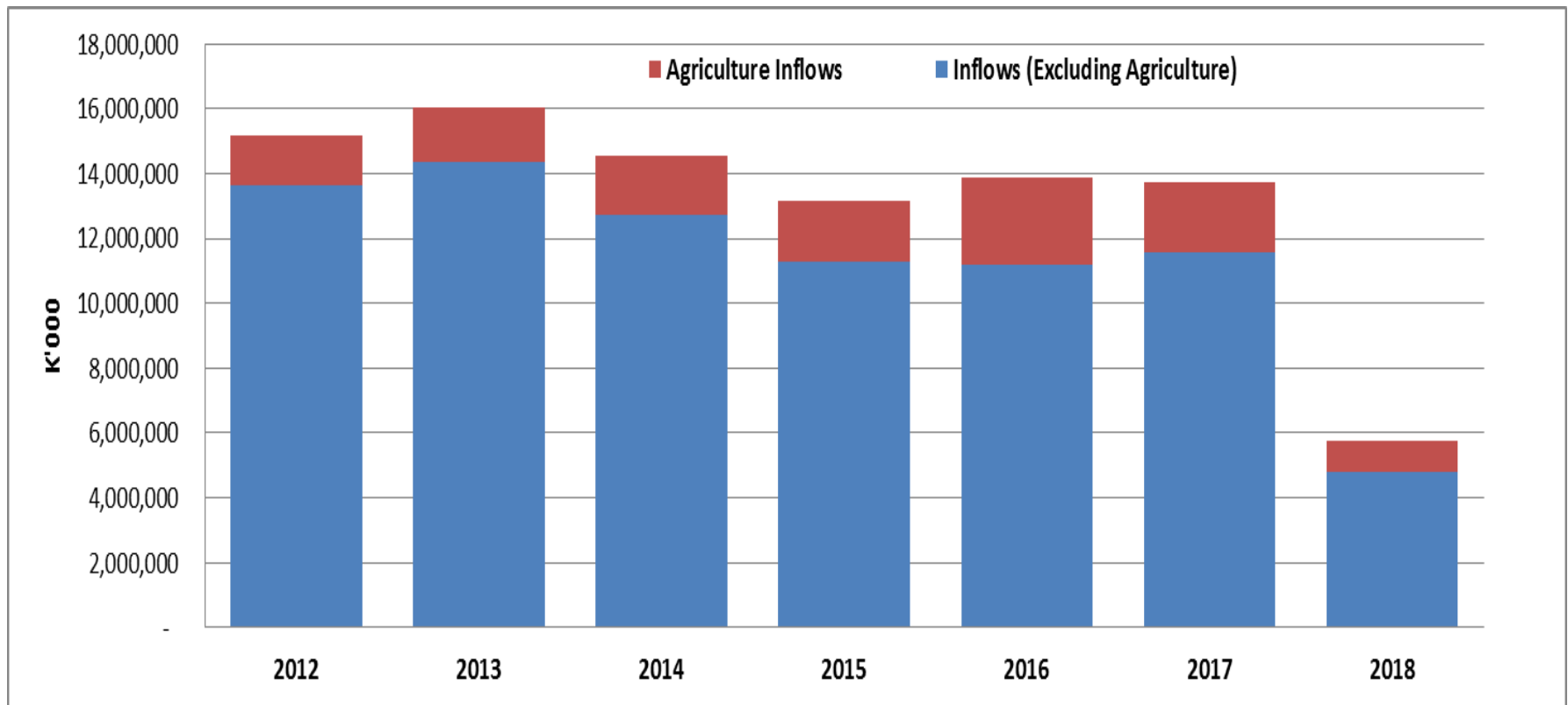
- ❑ The net outflows have been met adequately and in some case more than enough by the BPNG's interventions
- ❑ The interventions has achieve a gradual depreciation of the kina exchange rate consistent with the Bank's price stability objective.



- Excess Demand as measured by Outstanding Orders is not consistent with slowing economy.
- Some orders do not have Kina at the time of settlement, which suggests front loading of import orders, hence the persistent outstanding orders.
- Some of the large orders are Dividends.



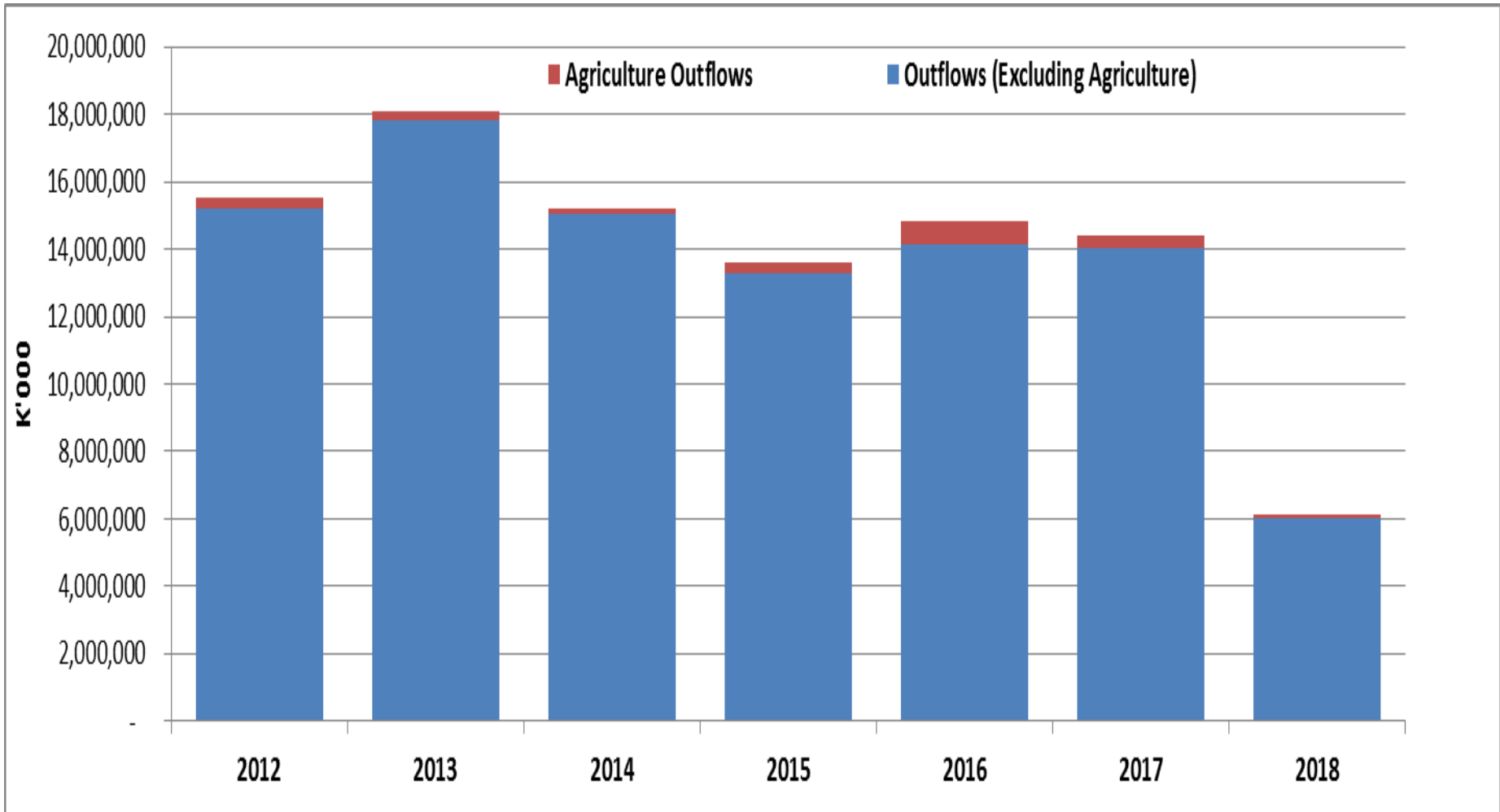
AGRICULTURE FX INFLOWS vs. TOTAL FX INFLOWS

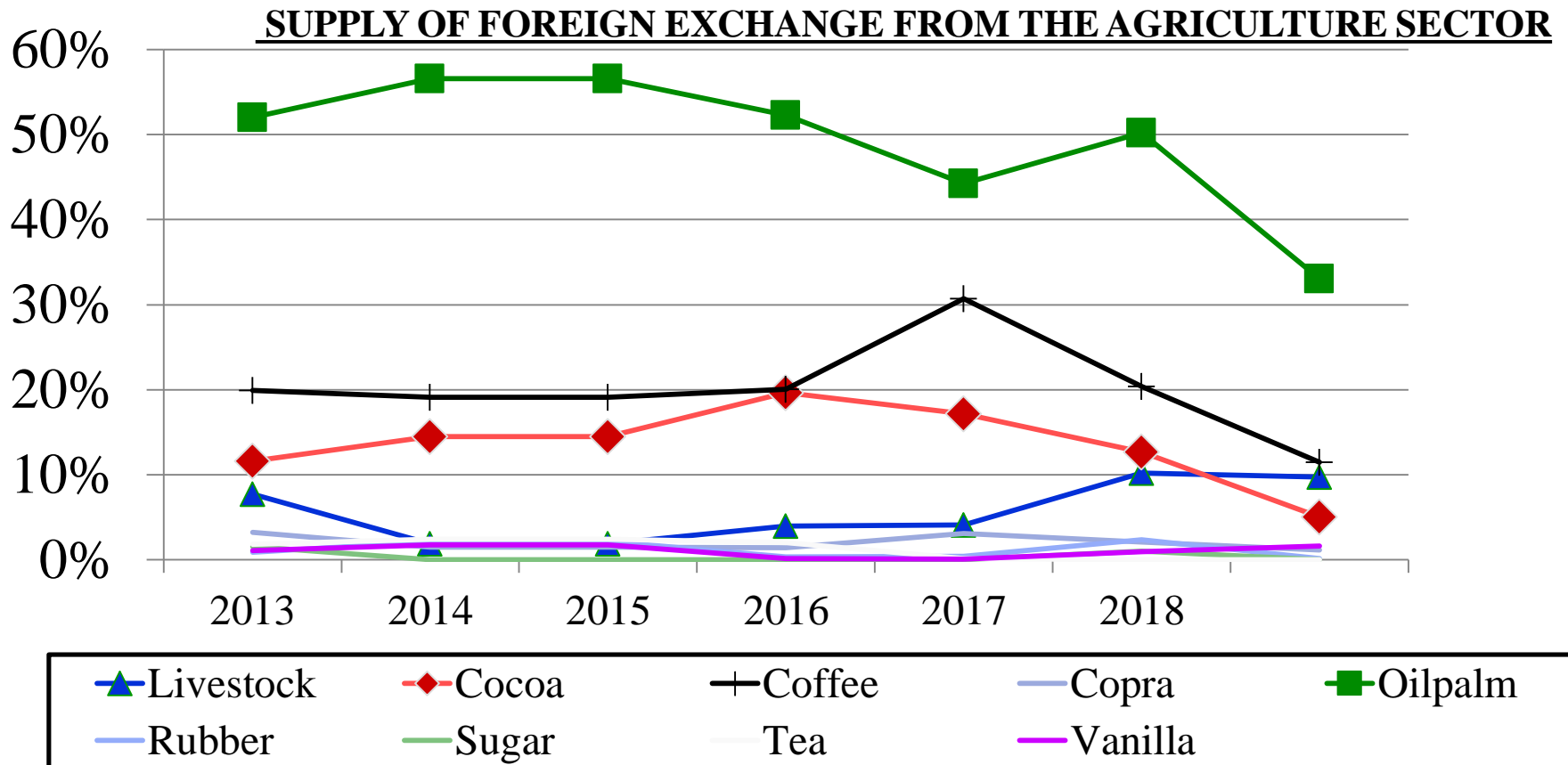


- Foreign exchange inflows from the Agriculture Sector is small
- Performance over the years have been steady

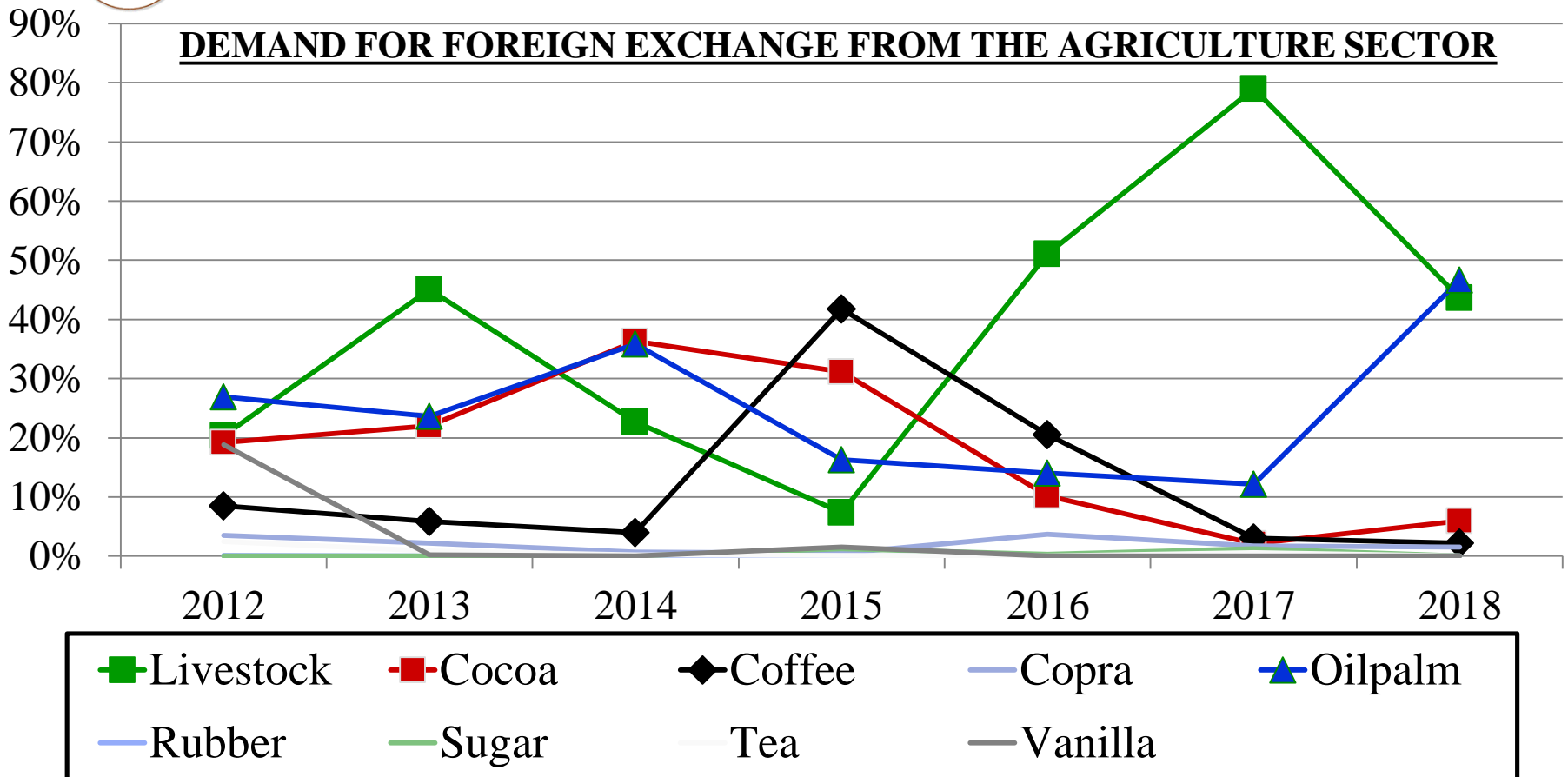


AGRICULTURE OUTFLOWS vs. TOTAL OUTFLOWS





- **Main export from the Agriculture sector is Oil Palm**
- **Coffee continues to decline while vanilla export is not fully recorded due to most of trading over the PNG border**

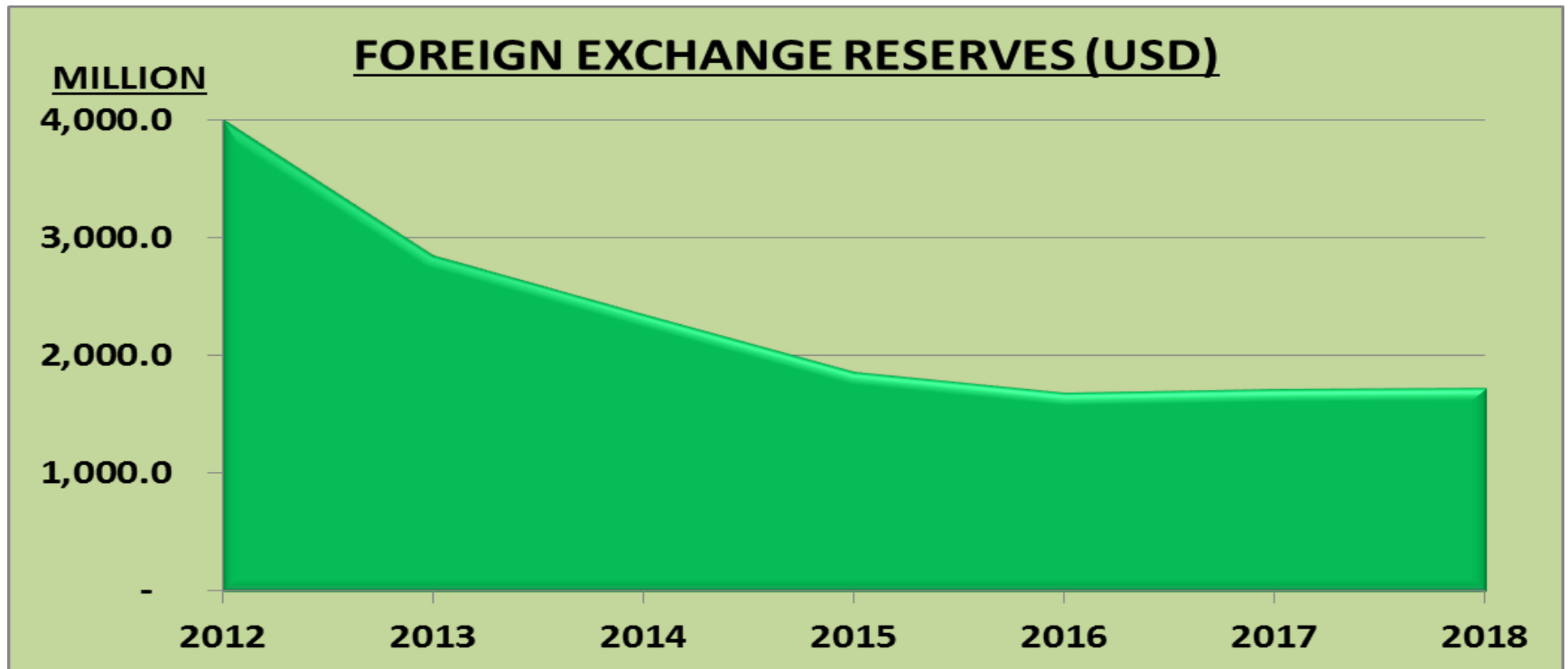


- **Big increase in demand for foreign exchange from livestock (feeds, etc)**
- **Since 2017, there has been an increase in demand for foreign exchange from the Oil Palm... repayment of FC loan**



Foreign Exchange Reserves

- BPNG intervenes to support FX market and smooth the exchange rate movement
- Current international reserves around US\$1.7 billion (K5.5 billion)
- Sufficient for approx 5.1 months of total and 9.0 months of non-mineral import cover



- The gross foreign reserves have remained around US\$1.7 billion for the last two years.
- Decline is due to decline in mineral & dividend taxes and intervention to assist domestic foreign exchange market
- As of end June 2018, it was US\$ 1.730 (K5.6) billion
- The current import covers at the end of March 2018 are:
 - 5.8 months for total
 - 8.9 months for non-mineral



CONCLUSION

- The Government needs to diversify the economy by focusing on investments in the Agriculture sector.
- The impact of the shortage in Foreign exchange is mainly on the livestock segment.
- The current exchange rate is conducive to increase production in agriculture for exports.
- Why Agriculture is important to the economy;
 - Source of foreign currency income
 - Source of employment
 - Source of revenue to the State
 - Food Security for the nation



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Thank you