PAPUA NEW GUINEA

Table 1	2019
Population, million	8.8
GDP, current US$ billion	25.0
GDP per capita, current US$	2849
Poverty rate ($1.90/day 2011 PPP terms)[a]	38.0
National poverty rate[a]	39.9
Gini index[a]	41.9
Life expectancy at birth, years[b]	64.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2009/10).
(b) Most recent WDI value (2018).

The economy has been hit hard by COVID-19 due to weaker aggregate demand and less favorable terms of trade. In response, the government has mobilized domestic resources and is engaging development partners and the private sector to finance additional public spending to support the affected economy and the population. While the focus of the authorities is currently on crisis mitigation, it also is important to prepare the economy for a more robust and resilient recovery over the medium term.

Recent developments

Our updated projections for 2020 suggest that the economy will contract 3.3 percent in 2020 (5.2 percent per capita). Pandemic-related international and domestic movement restrictions have weakened external and domestic demand and suppressed commodity prices, except for gold. Disputes with international investors over the ongoing and new resource projects are also contributing to lower growth in 2020.

The current account surplus is expected to decrease from 22.5 percent of GDP in 2019 to about 16 percent in 2020. Gold prices are at near-record highs, fuel import costs are falling, and Papua New Guinea is not highly dependent on foreign tourist income or remittances from abroad. Australia, a significant trading partner, has also successfully contained the virus so far, providing hope that regional economic disruption will be lower than in Europe or the Americas.

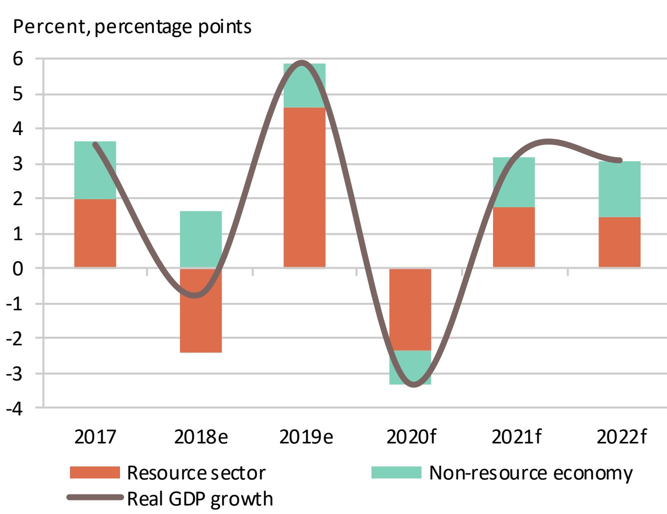
The fiscal deficit will increase from 4.9 percent of GDP in 2019 to 8.1 percent estimated for 2020. A revenue shortfall due to COVID-19 is estimated to contribute 1.2 percentage points to the deficit, while a limited adjustment to the expenditure side will add extra 1.9 percentage points. This additional financing need is expected to be covered by the central bank (via a quantitative easing program and a temporary advance facility) and external concessional financing from multilateral and bilateral partners.

The authorities reacted swiftly by approving a package of emergency health and economic relief measures of about 2.2 percent of GDP. However, its implementation has been slow. In early April 2020, the government mobilized its resources and appealed to development partners and the private sector for additional support to protect the economy and livelihoods of vulnerable households and businesses.

The tax authority provided deferrals for tax filing and payment for two months and prioritized processing of goods and services tax refunds for medical supplies. The central bank injected additional liquidity into the system and provided foreign currency for COVID-19-related purchases of medicine and medical equipment.

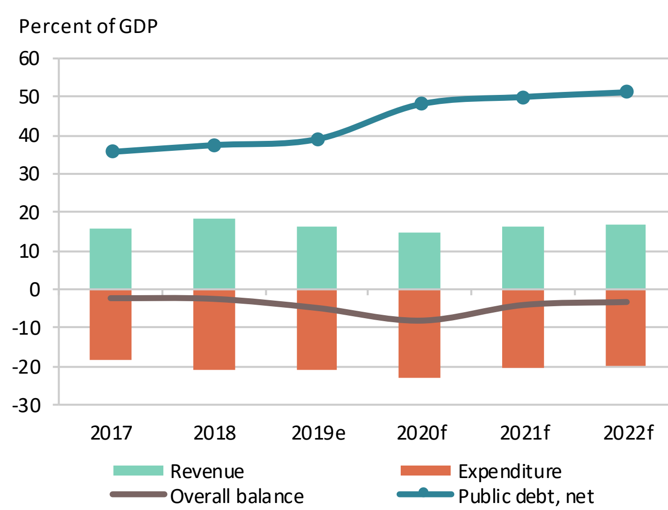
The prevalence of extreme poverty in PNG is very high, with about 38 percent of the population in 2010 (the latest household budget survey available) living under the international poverty line of US$1.90 per day (2011 PPP terms). A mobile phone survey was recently conducted to capture the impacts of the pandemic at the household level, particularly the poor. In the agricultural sector, where most of the poor work, nearly half of households reported expecting a decline in agricultural income for the current growing season. In terms of employment, approximately 25 percent of those working at the pre-crisis baseline were no longer working during the week prior to data collection. According to a wealth index in the survey, the middle quintile of households (who represent the vulnerable and near poor households), were most impacted by job losses.

FIGURE 1 Papua New Guinea / Real GDP growth and contributions to real GDP growth



Sources: World Bank staff estimates and forecast.

FIGURE 2 Papua New Guinea / Key fiscal and debt indicators



Sources: World Bank staff estimates and forecast.

Outlook

Growth is expected to rebound to more than 3 percent in 2021–22. Economic growth in the medium term will be supported by foreign investment in new resource projects, including the Papua LNG project, the Wafi-Golpu gold and copper mine, the P'nyang gas field, and the Pasca A gas condensate field. The upcoming investment boom will boost demand for services (especially for accommodation, catering, and security) in the capital and provinces that will be hosting these projects. Potential growth will be increasing, in line with substantial foreign direct investment to start flowing into the economy.

Inflation is expected to stay muted in 2020 due to COVID-19 and start picking up over the medium term. The benign inflationary outlook for this year is underpinned by weak domestic demand, the overvalued local currency, and subdued energy prices. The end of the current crisis and relaxation of COVID-19 mitigation measures are likely to reinvigorate domestic demand, putting upward pressure on prices in 2021–22.

The Balance of Payments is projected to be in balance, owning to external budget-support funding available to fill the emerged financing gap. The current account is expected to remain in surplus in 2020–22, but the surplus will be smaller. Prices of major exports—including precious metals, energy, and agricultural commodities—are expected to average lower in 2020; gold being an exception. Although external budget financing will provide immediate relief to the foreign exchange market, falling exports and disruptions to mining projects are likely to offset these positive developments in the short term.

The COVID-19 crisis has impacted the already-complicated fiscal picture and will lead to a higher debt-to-GDP ratio. Before COVID-19, the government was planning the fiscal deficit at 5 percent of GDP in 2020, which was higher than in the previous years due to substantial budget arrears accumulated by the government. The COVID-19 impacts will lead to a higher fiscal deficit, estimated at 8.1 percent of revised GDP, and a higher debt -to-GDP ratio, estimated to exceed 48 percent of revised GDP in 2020. To contain public debt from growing further, the government will need to resume its fiscal consolidation efforts in the post-COVID-19 period, by focusing more on mobilizing domestic revenue and improving efficiency of public spending.

Reflecting economic uncertainties, the central bank is expected to continue its accommodative monetary policy over the near term with potential normalization to follow subject to inflationary pressure and economic growth. However, the central bank should address structural deficiencies within the financial sector to ensure these policies have the desired impacts. Policies such as reducing excess liquidity, enabling healthy competition, enhancing the effectiveness of money markets, and improving the investment climate in the financial sector should complement the monetary stimulus package.

Risks and challenges

The balance of risks to the outlook is firmly tilted to the downside. The main risks include the possibility that the COVID-19 pandemic lingers and has a lasting economic impact on the economy. In addition, ongoing disputes around the Porgera mine may affect investor confidence and, therefore, should be treated carefully.

Considering that the economy entered the COVID-19 crisis with a poor record of resilience to external shocks, it will be vital to set the stage for more sustainable and inclusive development by strengthening macroeconomic management and accelerating structural reforms while protecting the vulnerable. With no government safety nets programs in place, households in the recent mobile phone survey were relying mainly on informal channels for assistance, including friends, family, and religious organizations. Many also reported decreasing food consumption, selling productive assets, and taking on more debt as coping strategies, all of which have negative implications for their ability to recover in the post-crisis period.

For more inclusive and sustainable development over the medium term, the authorities will need to ensure that frontline health services continue to deliver during the crisis, introduce safety nets for the poor and vulnerable, support firms and jobs in the informal sector, and strengthen the macroeconomic policy framework.

TABLE 2 Papua New Guinea / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018e	2019e	2020f	2021f	2022f
Real GDP growth, at constant market prices	3.5	-0.8	5.9	-3.3	3.2	3.1
Resource sector[a]	4.4	-5.1	9.7	-4.8	3.7	3.1
Non-resource economy	1.6	3.1	1.9	-0.5	1.2	2.9
Inflation (Consumer Price Index), period average	5.4	4.7	3.6	3.2	3.5	4.0
Current Account Balance (% of GDP)	23.7	24.2	22.5	16.1	12.7	7.8
Resource sector[a]	26.3	26.7	27.9	22.9	23.3	22.1
Non-resource economy	-2.5	-2.5	-5.4	-6.8	-10.6	-14.3
Overall Fiscal Balance (% of GDP)	-2.5	-2.7	-4.9	-8.1	-4.2	-3.4
Non-resource primary balance (% of non-extractive GDP)	-1.6	-2.7	-5.3	-8.2	-4.0	-3.1
Public Debt, net (% of GDP)	35.9	37.7	39.2	48.3	50.2	51.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast; (a) The resource sector comprises agriculture, forestry, fishing, mining, quarrying, petroleum and gas production and related construction.