

PAPUA NEW GUINEA

Table 1	2020
Population, million	8.9
GDP, current US\$ billion	23.6
GDP per capita, current US\$	2637
Poverty rate (\$190/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).

In 2020, Papua New Guinea faced three crises: the COVID-19 health emergency, an economic contraction, and political turmoil. The economy contracted by 3.8 percent in 2020 and is expected to rebound by 3.5 percent in 2021. Considering that the economy entered the COVID-19 crisis with a poor record of resilience to external shocks, strengthening macroeconomic management and accelerating structural reforms will be vital. Strengthening public institutions that deliver basic public services, especially during crises, is also important.

Key conditions and challenges

The ongoing COVID-19 crisis is an unprecedented external shock for the economy, with negative fiscal implications, exposing the government's low capacity to support the poor and vulnerable. The COVID-19 crisis has come on top of boom and bust cycles in PNG driven by swings in the natural resource sector. These cycles have been exacerbated by sub-optimal fiscal and public expenditure management as expenditure goes up during booms, followed by busts when the boom ends. Pandemic-related global and domestic travel restrictions have weakened external and domestic demand and hit commodity prices. This has led to a sharp economic contraction, a sizable fiscal gap, and higher unemployment and poverty, especially among women and the youth.

From global as well as regional perspectives, prevalence of extreme poverty in PNG is high. About 38 percent of the population in 2010 (the latest household budget survey available) lived under the international extreme poverty line of US\$1.90 per day (2011 PPP terms). The national poverty rate was estimated at 39.9 percent of the population. This incidence of poverty is by far one of the highest rates in the East Asia and Pacific region. It is also higher than in many lower middle-income, resource-rich peer countries. Broadly consistent with the high proportion (87 percent) of the population living in rural areas, almost 90 percent

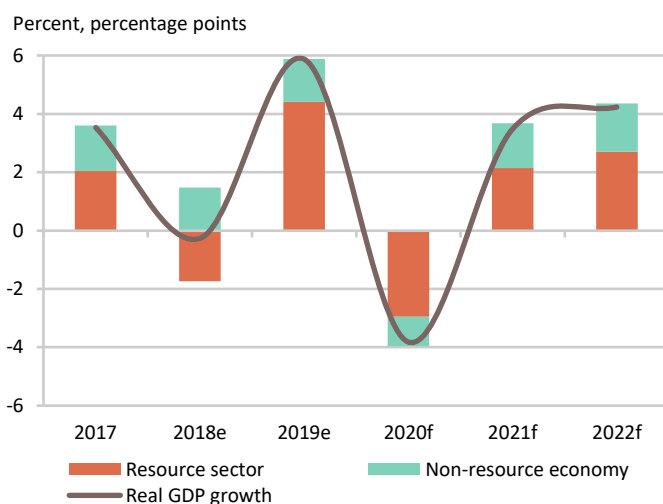
of the country's poor are located in rural PNG and are more likely to be engaged in agricultural activities.

Recent developments

As a result of pandemic-related restrictions and weaker demand, it is estimated that real GDP contracted by 3.8 percent in 2020 (compared to a pre-crisis projection of 2.9 percent growth). The fiscal deficit widened to 8.1 percent of GDP (3 percentage points larger than the pre-crisis projection). Consequently, the debt-to-GDP ratio surged to 49 percent (9 percentage points higher than the pre-crisis projection). At the same time, unemployment increased, affecting the most vulnerable households, including women and the youth. On top of these new challenges, the government faced a political crisis at the end of the year, with a threatened no-confidence vote and delays in approving the 2021 National Budget.

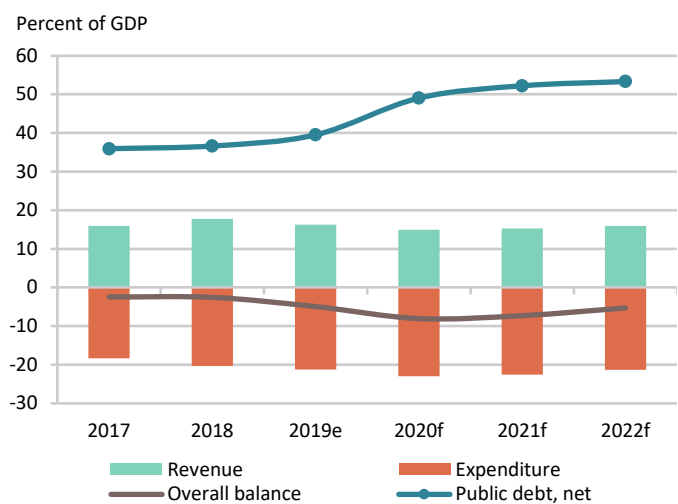
The impact of COVID-19 on livelihoods of the poor and vulnerable households was severe, according to a recent World Bank survey. Two rounds of a mobile phone survey (conducted in June and December 2020) point to considerable impacts of the pandemic at the household level, particularly the poorest segments of the society. In the June round, for the agricultural sector, where most of the poor work, nearly half of households reported projected declines in agricultural income for the current growing season. In terms of employment, about 25 percent of those working at the pre-crisis baseline were no longer working during

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.

the week prior to data collection. According to the survey, the middle quintile of households, who represent the vulnerable and near poor households, were most impacted by job losses. Preliminary analysis from the December survey shows a limited rebound for key sectors, but that this recovery has been unequal, and many groups are at risk of falling further behind.

In 2020, the government initiated an anti-crisis program of about US\$500 million (2.2 percent of GDP), comprising budget and off-budget funding. The lack of formal safety net programs constrained government support to poor households. Cash constraints—due to reduced domestic revenue and backloaded external support from development partners—slowed the implementation of health and economic relief measures initially. The government focused on securing foreign grants and loan support and amended the Central Banking Act to tap into domestically available funding at the Central Bank. Budget support provided by the Government of Australia and the Asian Development Bank led to an increase in international reserves at the end of 2020, affecting the pace of exchange rate adjustment.

Outlook

Economic growth is expected to rebound to about 3.5 percent in 2021–22, but the

economy will be 9 percent smaller in 2023 compared to our pre-pandemic forecast. This outlook reflects both delays to forthcoming resource projects and some level of “scarring” caused by pandemic-related disruptions, whereby the consequences of higher unemployment, falling incomes, and reduced economic activity impact future consumer spending and business investment. The outlook is expected to follow a shallow “U-shaped” recovery instead of a more rapid “V-shaped” bounce back. These forecasts are subject to a high level of uncertainty. They will depend on the speed of both domestic and international vaccine rollouts, future levels of demand for Papua New Guinea’s exports, and government efforts to improve economic and fiscal resilience to external shocks.

Risks to the outlook are firmly weighted to the downside. Although domestic GDP growth will resume in 2021, the growth rate may be volatile owing to external and domestic factors. If economic growth in PNG’s main trading partners (Australia, China, and Japan) is below expectations, demand for PNG’s key commodity exports may reduce. This would place downward pressure on the local currency, eroding external buffers. Commodity-price and natural-disaster shocks may continue to impact extractive sector performance, with negative implications for the rest of the economy. These developments would negatively impact

resource revenue flows to Papua New Guinea’s external and fiscal accounts. Domestically, this volatility is subject to an uncertain performance by the country’s major (existing and new) resource projects. Potential delays in the implementation of new resource projects may also impact macroeconomic outcomes, affecting the underlying assumptions of the baseline scenario.

Political risks to the outlook are high, exacerbated by recent political turmoil. Successful motions of no-confidence are relatively frequent, and governing coalitions do not tend to be based on clear programmatic policy platforms, so the policy environment can be quite unpredictable. Although the most recent motion of no-confidence against the current government failed to succeed, the political situation remains fluid. This political uncertainty will remain until next elections to be held in June 2022, with certain risks to the negotiation process with current and potential investors and the overall business sentiment in the country.

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 employment in the informal sector, and strengthen the macroeconomic policy framework, including a renewed focus on fiscal consolidation.

TABLE 2 Papua New Guinea / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2018e	2019e	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	-0.3	5.9	-3.8	3.5	4.2	2.4
Resource sector ^a	-3.7	9.3	-5.8	4.3	5.6	1.4
Non-resource economy	2.7	2.4	-0.2	1.1	2.0	2.5
Inflation (Consumer Price Index), period average	4.6	3.7	5.3	5.0	5.0	5.0
Current Account Balance (% of GDP)	23.5	22.2	23.8	14.5	9.3	3.8
Resource sector ^a	25.9	28.0	27.0	24.1	22.6	17.9
Non-resource economy	-2.4	-5.7	-3.2	-9.6	-13.3	-14.1
Overall Fiscal Balance (% of GDP)	-2.6	-5.0	-8.1	-7.3	-5.3	-3.2
Non-resource primary balance (% of non-extractive GDP)	-2.7	-5.2	-8.0	-7.6	-5.5	-2.3
Public Debt, net (% of GDP)	36.6	39.5	49.0	52.2	53.3	54.3

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.