

PAPUA NEW GUINEA

Table 1	2020
Population, million	8.9
GDP, current US\$ billion	23.6
GDP per capita, current US\$	2651.7
National Poverty Rate ^a	39.9
Gini index ^a	41.9
School enrollment, primary (% gross) ^b	108.5
Life expectancy at birth, years ^b	64.5
Total GHG Emissions (mtCO ₂ e)	65.7

Source: WDI, Macro Poverty Outlook, and official data.
 (a) Most recent value (2009/10). National values.
 (b) WDI for School enrollment (2016); Life expectancy (2019).

The COVID-19 pandemic has induced severe economic and social cost in Papua New Guinea (PNG), exacerbated by the structural economic challenges and low fiscal space. A new wave of infections, low vaccination rate, and lower output in the resource sector slow down the economic recovery in 2021. For a faster and more inclusive growth the authorities would need to strengthen the macroeconomic policy framework, ensure that health services continue to deliver during the crisis, and accelerate structural reforms.

Key conditions and challenges

The COVID-19 crisis has come on top of PNG's structural economic challenges, notably the boom-and-bust cycles driven by swings in natural resource sector exports. These cycles have been exacerbated by sub-optimal fiscal and public expenditure management as expenditure goes up during booms, followed by spending cuts when the boom ends. Pandemic-related global and domestic travel restrictions have weakened external and domestic demand. In 2020, this has led to an economic contraction, a sizable fiscal deficit, and higher unemployment and poverty, especially among women and the youth.

PNG has a highly dispersed and fragmented population, low level of urbanization, significant gender disparities, high exposure to natural disasters, high degree of resource dependence, and inter-communal violence in some regions. Weak governance, which yields frequent changes of government and which limits the development of state capability, severely constrains PNG's ability to effectively manage this challenging context. PNG's fragility-related risks are exacerbated by the socio-economic impact of exogenous shocks, such as earthquakes and the current COVID-19 pandemic.

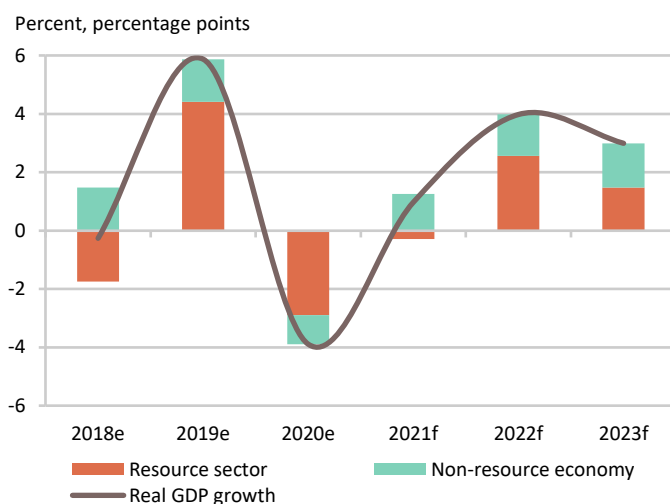
From global as well as regional perspectives, prevalence of extreme poverty in PNG is high. About 38 percent of the population in 2010 (the latest household

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 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 in rural PNG and are more likely to be engaged in agricultural activities.

Recent developments

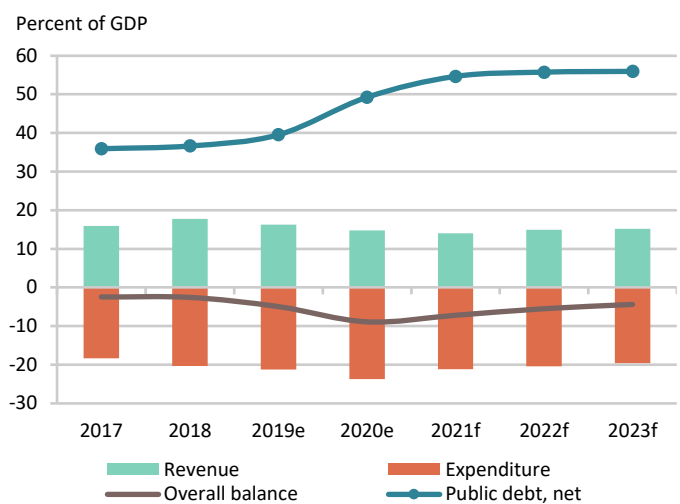
As a result of pandemic-related restrictions and weaker demand the economy contracted by 3.9 percent in 2020. The fiscal deficit widened to 8.9 percent of GDP, with revenue underperformance, rather than a sharp increase in spending, being the main driver. Consequently, the debt-to-GDP ratio surged to an estimated 49.2 percent. To accommodate temporary fiscal imbalances caused by the COVID-19 pandemic, the amended Fiscal Responsibility Act has temporarily (for a 5-year period) increased the public debt ceiling from 45 to 60 percent of GDP, targeting a return to below 40 percent of GDP within 10 years. In 2021, economic recovery has been dragged by falling gold and LNG production and the reintroduction of Covid-19 restrictions. In the first half of 2021, gold output fell in the Lihir, Simbiri and Hidden Valley mines, while Porgera mine

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



Source: World Bank staff estimates and forecast.

FIGURE 2 Papua New Guinea / Key fiscal and debt indicators



Source: World Bank staff estimates and forecast.

remained closed. Scheduled maintenance at the PNG LNG project has led to lower gas production. Meanwhile, new waves of Covid-19 infections (of the 18,000 total cases, 95 percent have been registered since February 2021), slow vaccination roll-out (only 0.4 percent fully vaccinated) and related restrictions have impacted mobility, dampening activity in the non-resource economy. Inflation decelerated to 3.3 percent year-on-year in mid-2021. The Bank of PNG kept the interest rate at 3 percent.

The impact of COVID-19 on livelihoods of the poor and vulnerable households was severe, according to three rounds of a World Bank mobile phone survey conducted in June 2020, December 2020 and May 2021. More than one-quarter of those working in January 2020 were estimated to have stopped working by December 2020. The largest employment losses were in the agricultural sector. Despite some recovery in the second half of 2020, there remained a 28 percent loss in total employment between January and December 2020. Preliminary analysis from the May 2021 survey shows that employment did

not change significantly since the beginning of 2021. While most households in the May 2021 survey reported no change in income since January 2021, more than a quarter reported that their income had either reduced or stopped entirely. Most households were anxious about their finances in the next month. Overall, the survey results are consistent with a stall in economic recovery.

Outlook

Economic performance is projected to remain subdued in 2021 and rebound in 2022. The 2021 projection reflects a decline in gold mining and LNG production, and the impact of lockdown measures to counter the COVID-19 waves in March and May. Contingent on mining output returning to pre-pandemic levels, growth is projected to accelerate to 4.0 percent in 2022. Therefore, the economy will reach the pre-COVID level of 2019 only in 2022. The outlook is subject to a high level of uncertainty. It will depend on export

demand, the implementation of new resource projects, government efforts to improve economic and fiscal resilience to external shocks, and the speed of domestic and international vaccine rollouts. Currently, the vaccination rate in PNG is the lowest in the region and expected to reach only 17 percent by end-2021. Political risks to the outlook are also high. Motions of no-confidence are relatively frequent, and the political situation remains fluid. Political uncertainty will remain until next elections to be held in June 2022, with risks to the negotiation process with current and potential investors and the overall business sentiment.

To achieve a more inclusive and sustainable development path over the medium term, the authorities could concentrate on several priorities. First, strengthen the macroeconomic policy framework, including a renewed focus on fiscal consolidation. Second, ensure that frontline health services continue to deliver during the crisis. Third, introduce safety nets for the poor and vulnerable. Finally, support firms and employment in the informal sector.

TABLE 2 Papua New Guinea / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2018e	2019 e	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	-0.3	5.9	-3.9	1.0	4.0	3.0
Resource sector ^a	-3.7	9.3	-6.1	-0.6	5.4	3.1
Non-resource economy	2.7	2.4	-1.9	2.4	2.7	2.9
Inflation (Consumer Price Index), period average	4.6	3.7	4.9	3.7	4.5	4.2
Current Account Balance (% of GDP)	23.5	22.2	23.8	21.1	18.6	16.4
Resource sector ^a	25.9	28.0	27.0	25.6	23.8	22.2
Non-resource economy	-2.4	-5.7	-3.2	-4.5	-5.2	-5.8
Overall Fiscal Balance (% of GDP)	-2.6	-5.0	-8.9	-7.2	-5.5	-4.4
Non-resource primary balance (% of non-extractive GDP)	-2.7	-5.5	-9.4	-7.6	-5.9	-4.8
Public Debt, net (% of GDP)	36.6	39.5	49.2	54.6	55.7	55.9

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.