

PAPUA NEW GUINEA

Table 1 **2023**

Population, million	10.3
GDP, current US\$ billion	30.4
GDP per capita, current US\$	2942.7
International poverty rate (\$2.15) ^a	39.7
Lower middle-income poverty rate (\$3.65) ^a	67.7
Upper middle-income poverty rate (\$6.85) ^a	90.2
Gini index ^a	41.9
School enrollment, primary (% gross) ^b	109.5
Life expectancy at birth, years ^b	65.4
Total GHG emissions (mtCO2e)	51.9

Source: WDI, Macro Poverty Outlook, and official data.
 a/ Most recent value (2009), 2017 PPPs.
 b/ WDI for School enrollment (2018); Life expectancy (2021).

The economy has maintained growth momentum in 2023. High commodity prices boosted revenues, helping fiscal consolidation. Inflation has decelerated, and the Bank of PNG allowed greater exchange rate flexibility. PNG's growth model has not been sufficiently inclusive, with monetary poverty rates higher than peer countries. To make growth more inclusive, prudent macroeconomic management, better services, enabling business environment, and stronger resilience are needed.

Key conditions and challenges

Since gaining independence in 1975, the economy has more than tripled. However, real GDP per capita has only seen an annual increase of 0.9 percent—a sluggish rate compared to other lower middle-income resource-exporting nations. The growth trajectory has been marked by pronounced fluctuations, reflecting high susceptibility to shifts in international commodity prices. The inclusiveness of growth has been limited by the heavy reliance on capital in the resource sector and the underperformance of the non-resource sector.

Weak human development outcomes present missed opportunities for faster and more inclusive economic growth. Papua New Guinea (PNG) has one of the highest stunting rates in the world, affecting almost half of all children under the age of five. Furthermore, 26 percent of youth (10 to 29-year-olds) find themselves outside of training, education, and employment. Weak governance compounds the difficulties in effectively addressing these challenges, with external shocks compounding fragility-related risks.

Large segments of the population continue to lag in socio-economic development. The most recent Household Income and Expenditure Survey, from 2010, revealed that around 39 percent of the population lived below the poverty line of US\$2.15 per day (2017 PPP terms), with two-thirds of the population (67.7 percent) living below the

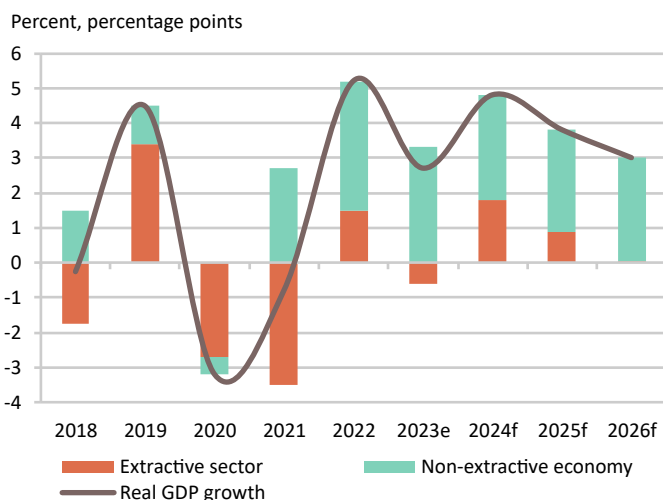
lower middle-income class poverty line, and 74.2 percent are considered to be multidimensionally poor. Access to basic services remains limited, with only 19 percent of the population having access to safe drinking water, and a mere 15 percent of households having access to electricity, according to the 2022 Socio-Demographic and Economic Survey.

Recent developments

The economy has recovered to pre-COVID output level but remains below the pre-COVID growth trajectory. The COVID-19 crisis led to an economic contraction in 2020-21 before recovering by 5.2 percent in 2022. The recovery in the extractive sector was driven by significant improvement in international prices of key export commodities, although the shutdown of the Porgera gold mine limited the rebound. Growth is estimated to have slowed down to 2.7 percent in 2023, primarily attributed to reduced global demand and domestic supply constraints stemming from scheduled maintenance in extractive facilities.

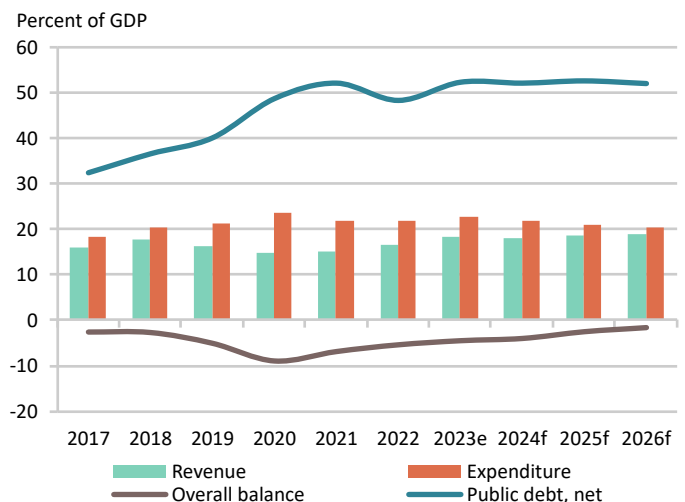
The pandemic exacerbated underlying fiscal weaknesses, and the government has embarked on a gradual fiscal consolidation to safeguard debt sustainability. As the economy recovered to pre-pandemic level, the government reduced the fiscal deficit from 8.8 percent of GDP in 2020 to an estimated 4.4 percent of GDP in 2023. Most of the improvement came from resource revenue. Meanwhile,

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.

the non-resource primary balance, a better measure of the underlying fiscal position not affected by the volatile resource revenue, remained unchanged between 2021 and 2023.

Headline inflation fell from 6.3 percent in 2022Q3 to 1.4 percent in 2023Q2, year-on-year, before inching up to 2.2 percent in 2023Q3. Core inflation followed a similar declining trend and stood at 1.3 percent in 2023Q3. Since September 2023, the Bank of PNG reduced the policy rate three times, by a cumulative 150 basis points, to 2 percent. Supported by an IMF-funded program, BPNG took steps towards greater exchange rate flexibility and allowed, since May 2023, gradual and moderate depreciation of kina to USD.

Monetary poverty likely increased during the initial phases of the COVID-19 pandemic before rebounding to pre-pandemic levels by 2022. High-frequency mobile phone surveys conducted at the beginning of the pandemic illustrate that food insecurity was significantly higher than measured during the 2016-2018 Demographic and Health Survey (DHS), despite the surveys being biased toward better-off households. By the end of the pandemic, food insecurity and employment had both strongly rebounded in these

surveys, and food insecurity rates were indistinguishable from pre-pandemic estimates in the 2016-2018 DHS.

Outlook

Growth is projected to accelerate in 2024, mostly due to the reopening of the Porgera gold mine. The mine restarted operations in 2024Q1 and is expected to reach normal levels of production by mid-year. Brief violence and looting in January 2024 dented the economy. According to the Business Council, losses included assets and property and forgone business revenue. This would lower tax collections and hurt investor sentiment. In addition, the dispute between the authorities and the main fuel importer led to disruptions in fuel provision to businesses and households, further slowing economic activity. The medium-term growth is expected to settle at 3 percent.

This projection does not account for potential new resource mega-projects, like Papua LNG. Thus, the final investment decision and the initiation of construction present an upside risk to the outlook.

Meanwhile, slower-than-expected economic growth could materialize through lower export demand, a more pronounced decline in commodity prices, and the impact of droughts and other climate-related events.

The growth model has not been sufficiently inclusive and needs an adjustment. Imputed poverty based on common variables across the 2009 HIES survey and the 2016-2018 Demographic and Health Survey, suggest there was no change in poverty from 2009- 2018 and therefore, no significant trickling down of economic growth during this period. When comparing the monetary poverty rate in PNG (based on the 2016-2018 DHS imputation) to the countries with a similar per capita GDP, the average poverty rate at the International Poverty Line of \$2.15 (2017 PPP) is one-quarter of the poverty rate in PNG (10.7 percent). To change the situation, the country needs to focus on (1) ensuring prudent macroeconomic policy management, (2) deepening and widening access to quality services to build human capital; (3) enabling private sector development for job creation and inclusive growth; and (4) promoting resilience and environmental sustainability.

TABLE 2 Papua New Guinea / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	-0.8	5.2	2.7	4.8	3.6	3.0
Real GDP growth, at constant factor prices	-1.0	5.8	2.7	4.8	3.6	3.0
Agriculture	1.1	3.1	4.2	3.9	3.3	3.3
Industry	-7.8	5.6	-1.5	5.7	4.3	2.7
Services	4.4	7.1	5.5	4.5	3.2	3.1
Inflation (consumer price index)	4.5	5.3	2.2	4.1	4.8	4.8
Current account balance (% of GDP)	22.2	33.0	23.0	23.5	22.8	22.3
Net foreign direct investment inflow (% of GDP)	-1.5	-1.2	-1.1	-1.3	-1.3	-1.3
Fiscal balance (% of GDP)	-6.9	-5.3	-4.4	-3.9	-2.5	-1.3
Revenues (% of GDP)	15.2	16.7	19.0	18.8	19.0	19.0
Debt (% of GDP)	52.8	48.4	52.4	52.2	52.3	51.5
Primary balance (% of GDP)	-4.4	-2.8	-1.8	-1.3	0.0	1.0
GHG emissions growth (mtCO₂e)	0.2	0.2	0.1	0.1	0.0	0.0
Energy related GHG emissions (% of total)	10.6	10.5	10.4	10.3	10.1	9.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.