

Papua New Guinea Economic Update: Invest in Your Children

May 2024

Summary and Key Findings

The World Bank's *Papua New Guinea Economic Update* provides an annual assessment of Papua New Guinea's economy within a long-term and global context along with the economic outlook. Each edition also provides an in-depth examination of a selected development issue. The May 2024 edition focuses on the urgent need for more and better investment in education to address a human capital crisis in PNG.

Papua New Guinea's Economy

The May 2024 *Economic Update* is the ninth in the series and outlines a recovery to pre-COVID output levels. However, growth is estimated to have slowed from 5.2 percent in 2022 to 2.7 percent in 2023 and the country remains below its pre-COVID growth trajectory.

As the economy recovered to pre-pandemic levels, the government reduced the fiscal deficit from 8.8 percent of GDP in 2020 to 4.4 percent in 2023. While public debt has stabilized; the country remains at high risk of debt distress.

Inflationary pressure remained low in 2023 but built slowly since the third quarter. Headline inflation fell steadily from 6.3 percent in 2022 Q3 to 1.4 percent in 2023 Q2, year-on-year. By the end of 2023 inflation had increased again to 3.9 percent. Since May 2023, the Bank of PNG has also allowed a moderate depreciation of the kina to address foreign exchange issues.

Papua New Guinea's Economic Outlook

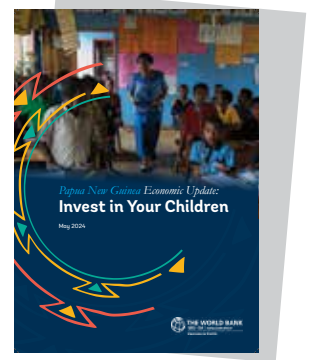
Economic growth is projected to accelerate to 4.8 percent in 2024, mostly due to the reopening of the Porgera gold mine. Growth could have increased even faster, but brief violence and looting in January 2024 placed a toll on the economy. Medium-term growth is expected to settle at three percent.

Slower-than-expected economic growth could occur through lower demand for PNG's exports, a more pronounced decline in commodity prices, and the impact of droughts and other climate-related events. On the other hand, stronger growth may be recorded because of new resource mega-projects, like Papua LNG, a liquefied natural gas (LNG) project.

The Power of Investing in Education

The May 2024 Papua New Guinea Economic Update includes a special analysis on the urgent need for investment in quality teaching. The report shows how this can improve teacher effectiveness and student learning, and ultimately lead to higher income growth and a reduction in poverty.

There is an education crisis in PNG. In PNG, most 20-24-year-olds (58 percent) have only received a primary-level education or less. Only 18 percent of 20-24-year-olds have completed secondary or tertiary education. Many young people are not going beyond primary education because they have not learnt foundational skills. More than 70 percent (72 percent) of 10 year olds are not able to read and understand an age appropriate text.



Growth slowed to **2.7% in 2023**



Medium-term growth projection is **3%**



72% of 10 year olds cannot understand age-appropriate text

Challenges and recommendations for investing in PNG's children



Improve maternal and child healthcare services

Challenge 1: Students are not ready to learn.

By the age of five, nearly half of all children (45 percent) in PNG are stunted from malnutrition — the fifth highest rate of stunting in the world — which affects brain development, hinders learning, and can lead to lifelong impacts.

In addition, children are not starting school at the right age. Only eight percent of children attend early childhood education and two thirds of children are overaged when they start school, which increases their risk of dropping out.

Recommendation: Reduce stunting by promoting access to primary healthcare, and maternal, sexual, and reproductive health services. Prioritize resources and political commitment to immunize every child against preventable illnesses.



Expand early childhood education

Recommendation: Facilitate the expansion and quality of early childhood education by allocating appropriate funding, providing technical support, and promoting collaboration among donors and stakeholders. Allocate resources to increase public awareness of the right age to start school and provide subsidies to enable the most disadvantaged children to be the first in line to access early childhood education.

Challenge 2: Teachers are not ready to teach.

Once in school, the most crucial factor influencing student learning is the quality of their teacher. Regrettably, teachers currently struggle with a poor mastery of content knowledge, weak teaching practices, and widespread absenteeism.



Deliver professional development programs to teachers

Recommendation: To improve teacher quality, deliver cost-effective professional development programs on delivering targeted instruction to students, using structured lessons plans, and adopting educational technology. These professional development programs are affordable and yield massive economic benefits. They cost an estimated PGK 370 per child, but the estimated economic benefit to the country is more than PGK 1,850 – a 5 to 1 return on the investment.



Challenge 3: The management of the education system has not kept up with its growth.

The annual education budget is growing, but it has not kept up with the growth in student numbers and price increases. Budget allocation per student has shrunk by more than 21 percent since 2013. Funding for essential inputs such as a textbook for every child, or professional development for all teachers is seriously inadequate.

Education funding is not distributed equitably or efficiently. Furthermore, a lack of data collection and cumbersome teacher management systems means there is a lack of transparency in how funding is distributed.



Increase spending on cost-effective interventions that improve student learning

Recommendation: Increase spending on cost-effective interventions to make teachers more effective instructors, for instance by introducing structured pedagogy or scripted lesson plans. Procure and deliver enough materials to schools, such as textbooks, reading books, and teacher guides as well as infrastructure such as toilets.

Recommendation: Simplify the formula determining each school's budget entitlement under the Government Tuition Fee Subsidy to increase transparency, accountability, and equity. Dashboards with school-level data and student assessments could be used to measure effectiveness and efficiency of spending and identify areas for course correction sooner.

PNG is ready to face these challenges, and doing so will yield large economic returns.

Only by investing in PNG's children today will the country be able to deliver a sustainable engine for future growth.





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