

2019 PNG Economic Survey

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Introduction

- The sixth in our series of annual economic surveys.
- A joint ANU-UPNG project providing independent, expert economic analysis.
- Based on interviews as well as our own research.

Structure

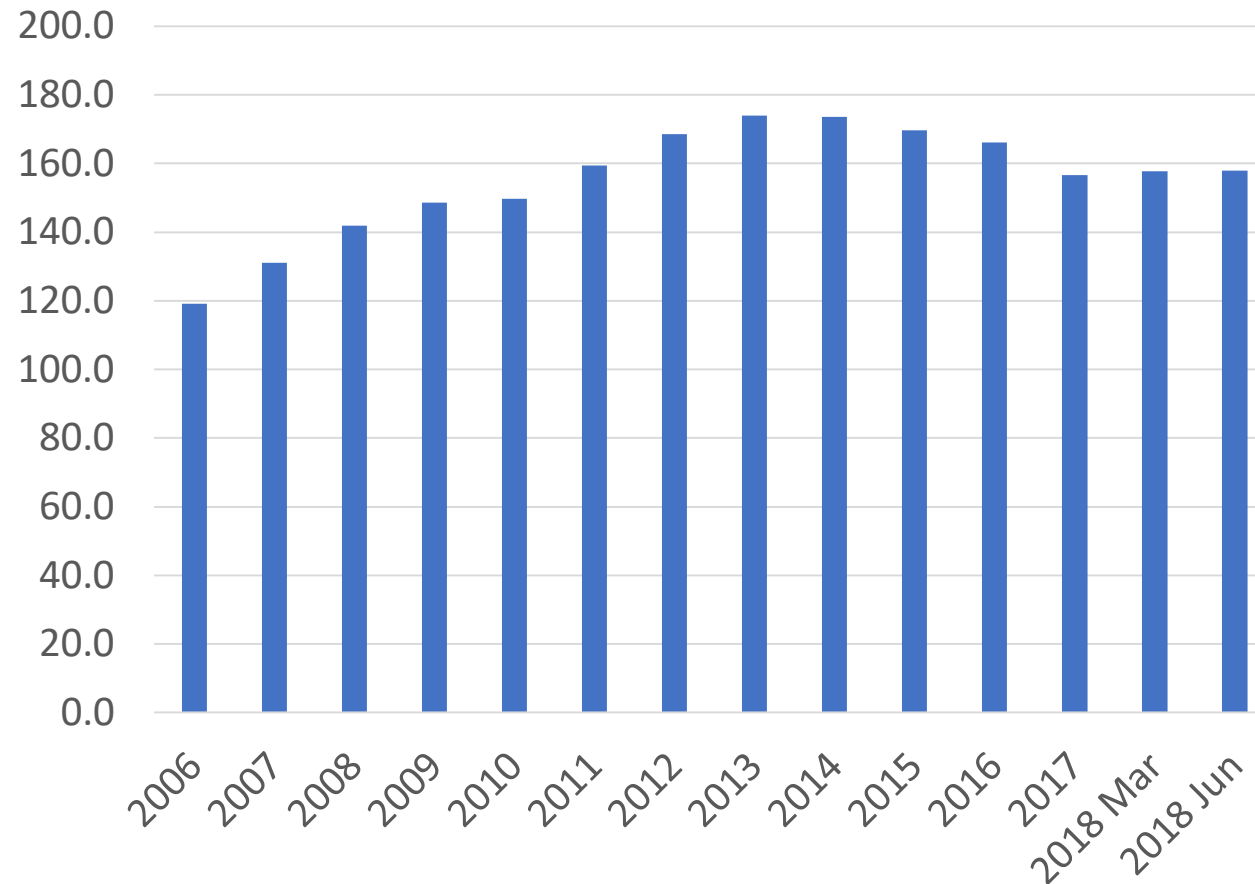
- Introduction
- Section 2 – Economic growth and fiscal trends
- Section 3 – Macro and other policies
- Section 4 – Governance trends
- Conclusion

Key notes from 2018 and 2019

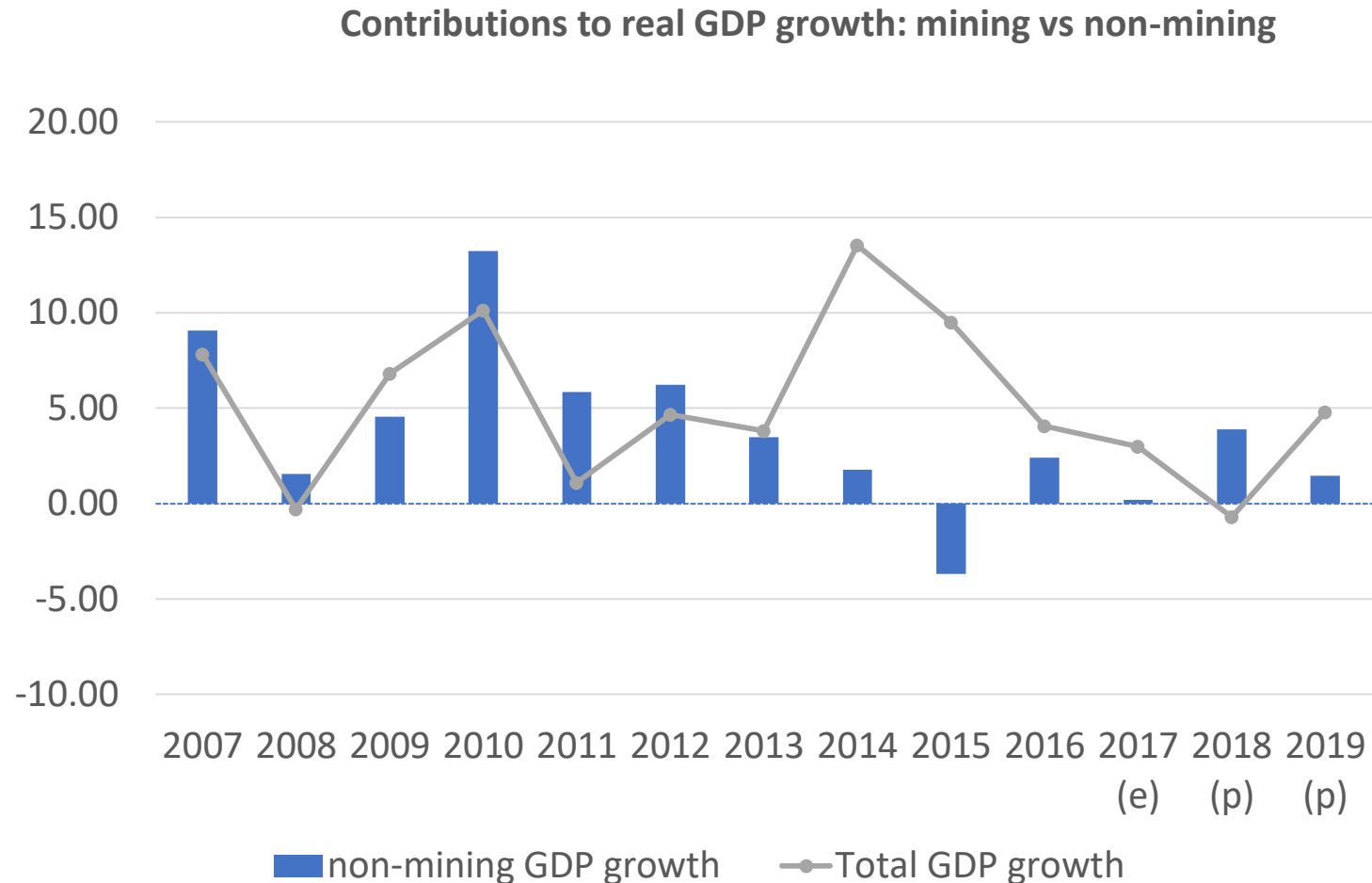
- Earthquake and APEC key events affecting the economy in 2018
- FX shortage still the number one issue for businesses, but temporarily better due to successful sovereign bond
- Papua LNG agreement signed
- New Prime Minister, new ideas
- Revenue improved in 2018, but falling in 2019 without APEC stimulus

Economic growth and fiscal issues

Formal employment has stalled (despite the government adding 5000 jobs last year)



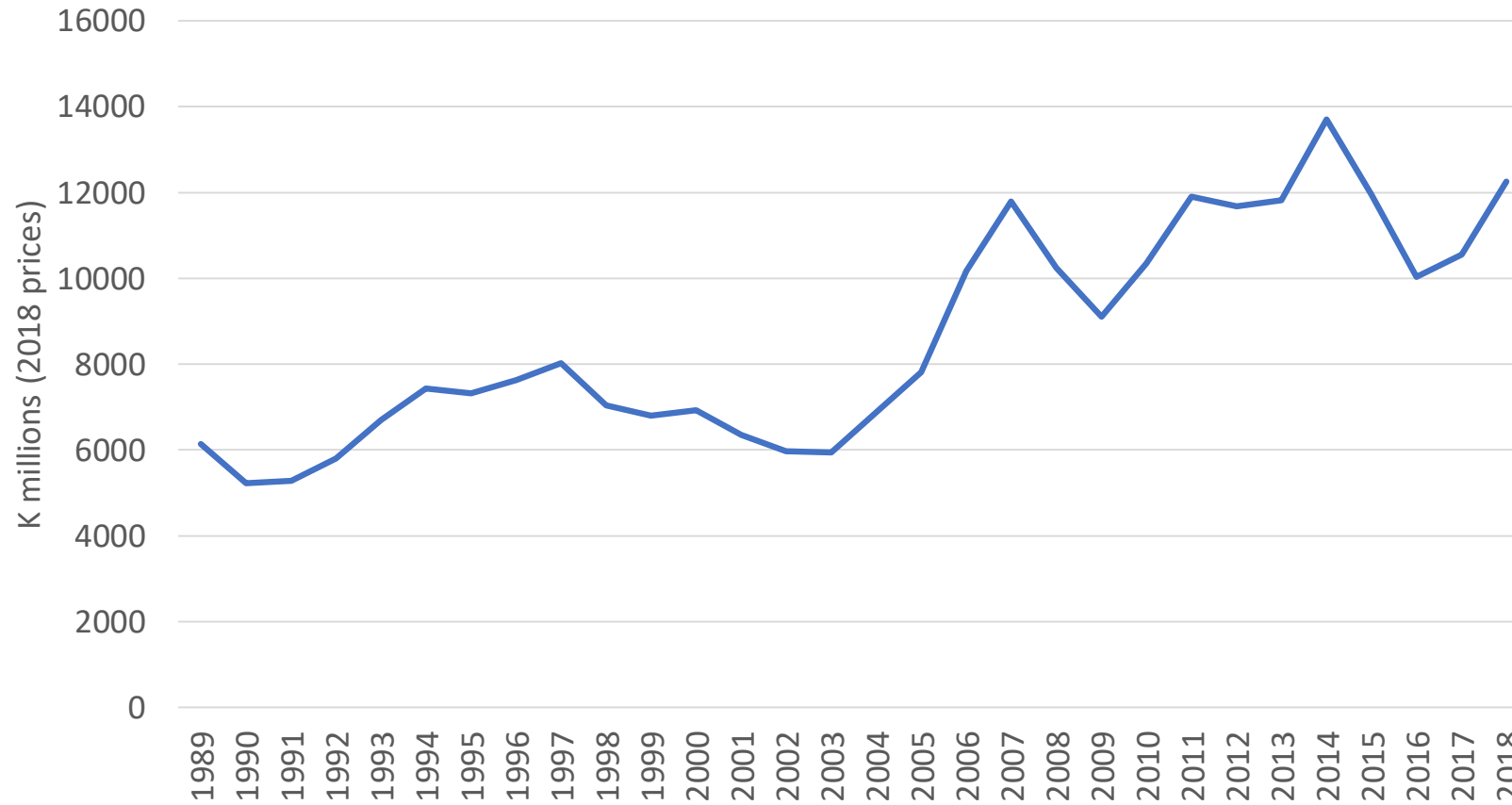
Non-resource GDP growth estimates



Source: PNG Treasury

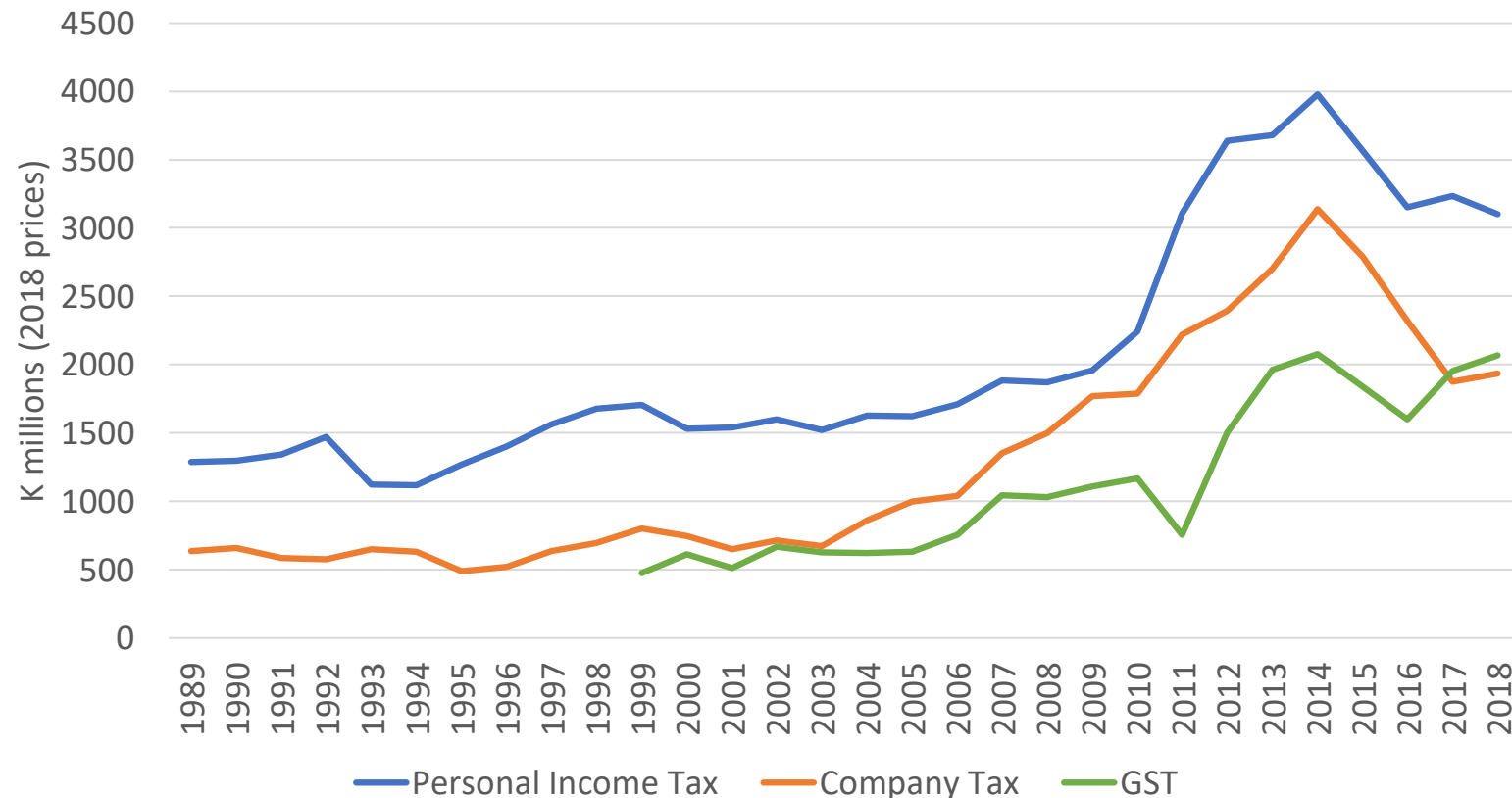
Government revenue

Government revenue, adjusted for inflation

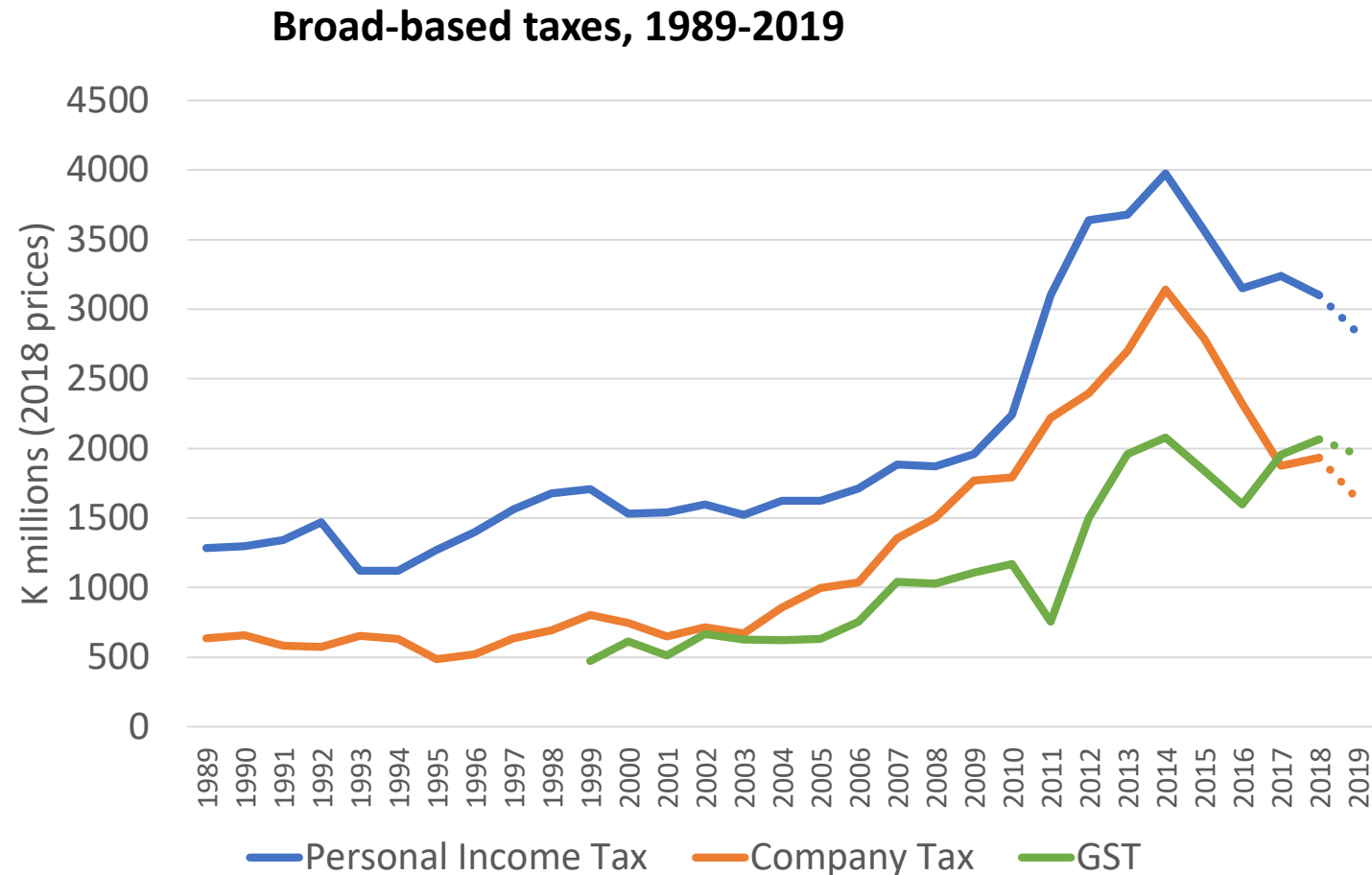


Below-average or negative growth in broad-based taxes in 2018

Broad-based taxes, 1989-2018

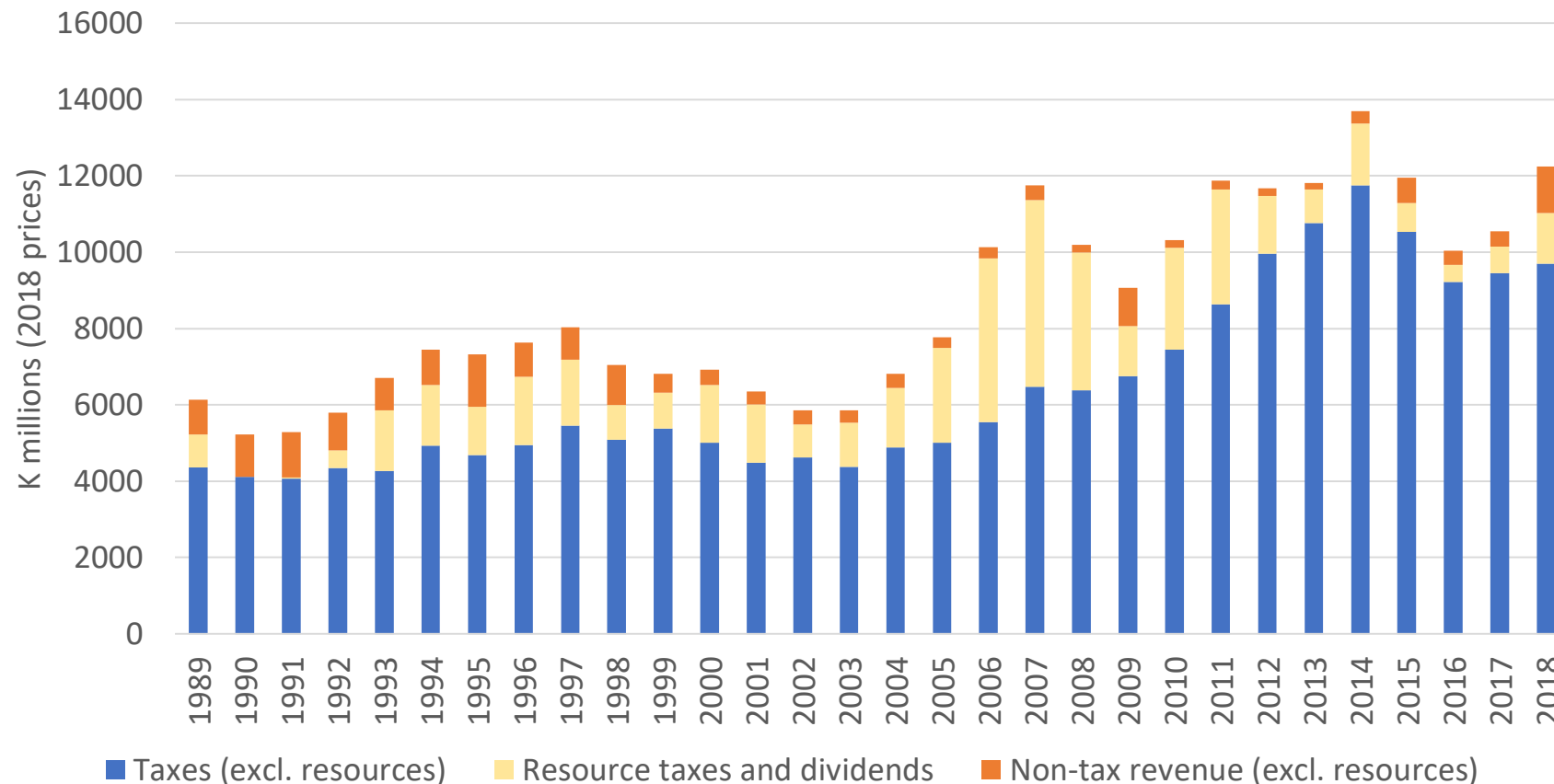


Negative performance so far in 2019



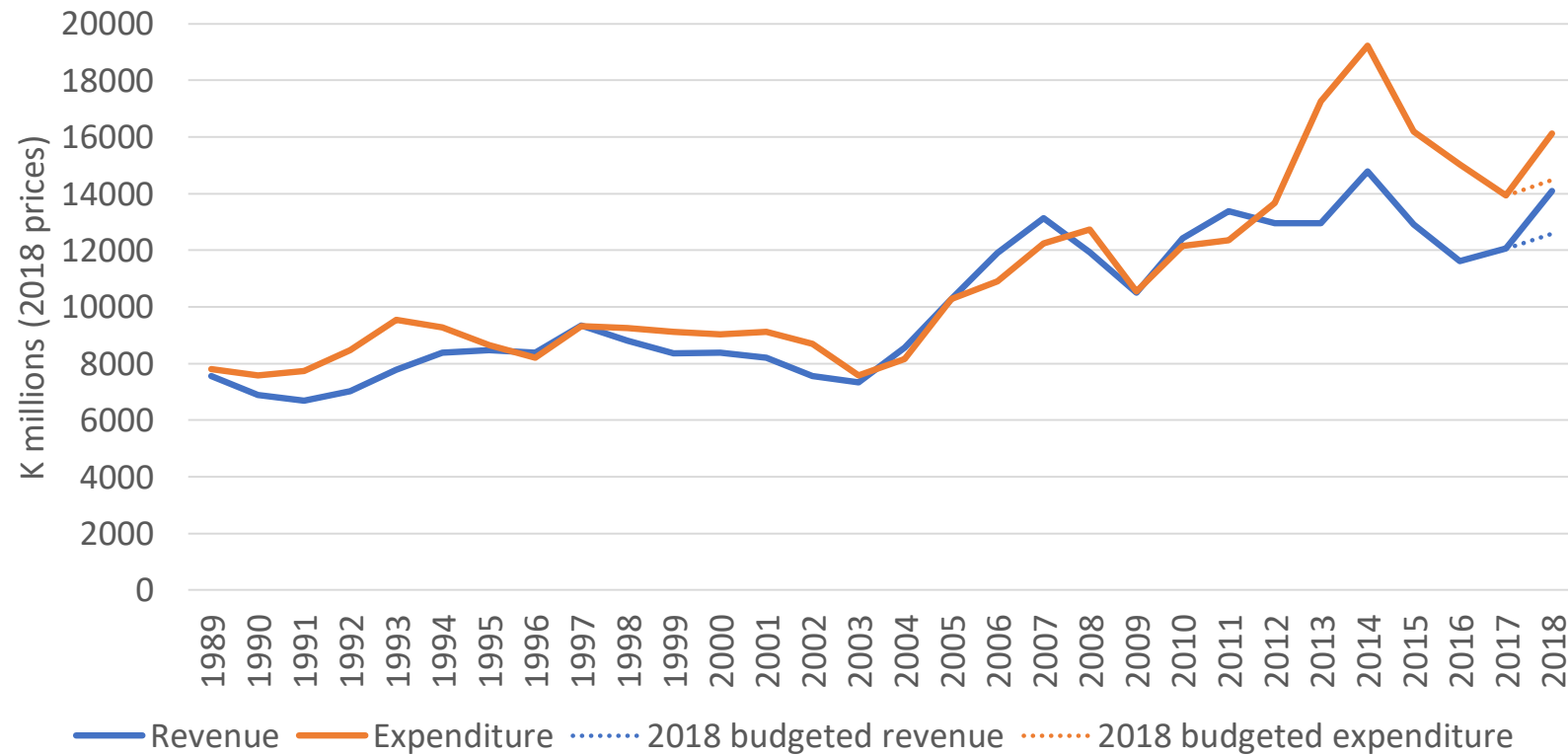
In 2018, the government improved non-tax revenues, but similar growth in 2019 unlikely

Break-up of revenue sources by category (excluding donor grants)

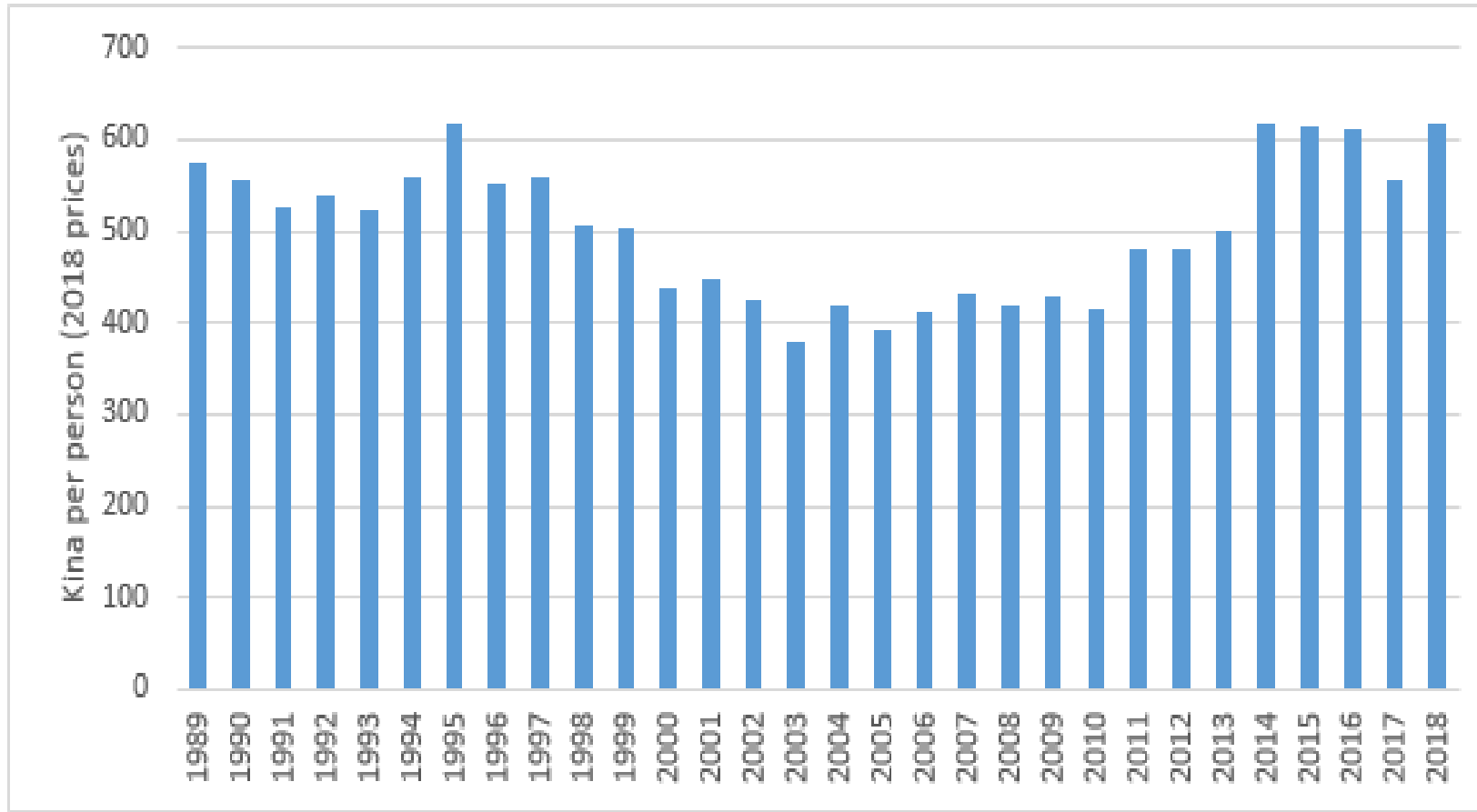


Expenditure increased in 2018 by roughly the same amount as revenue

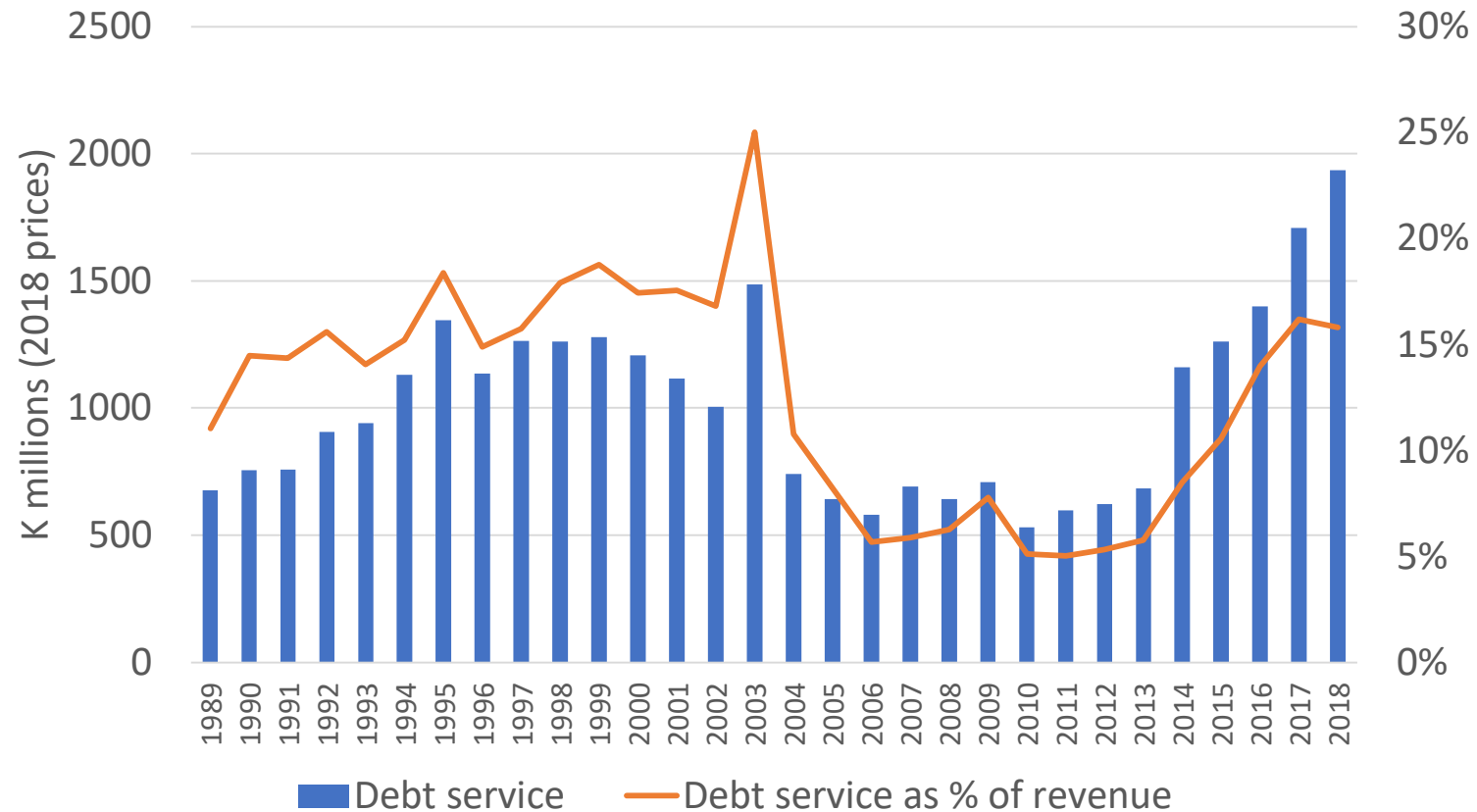
Revenue and expenditures 1989-2018



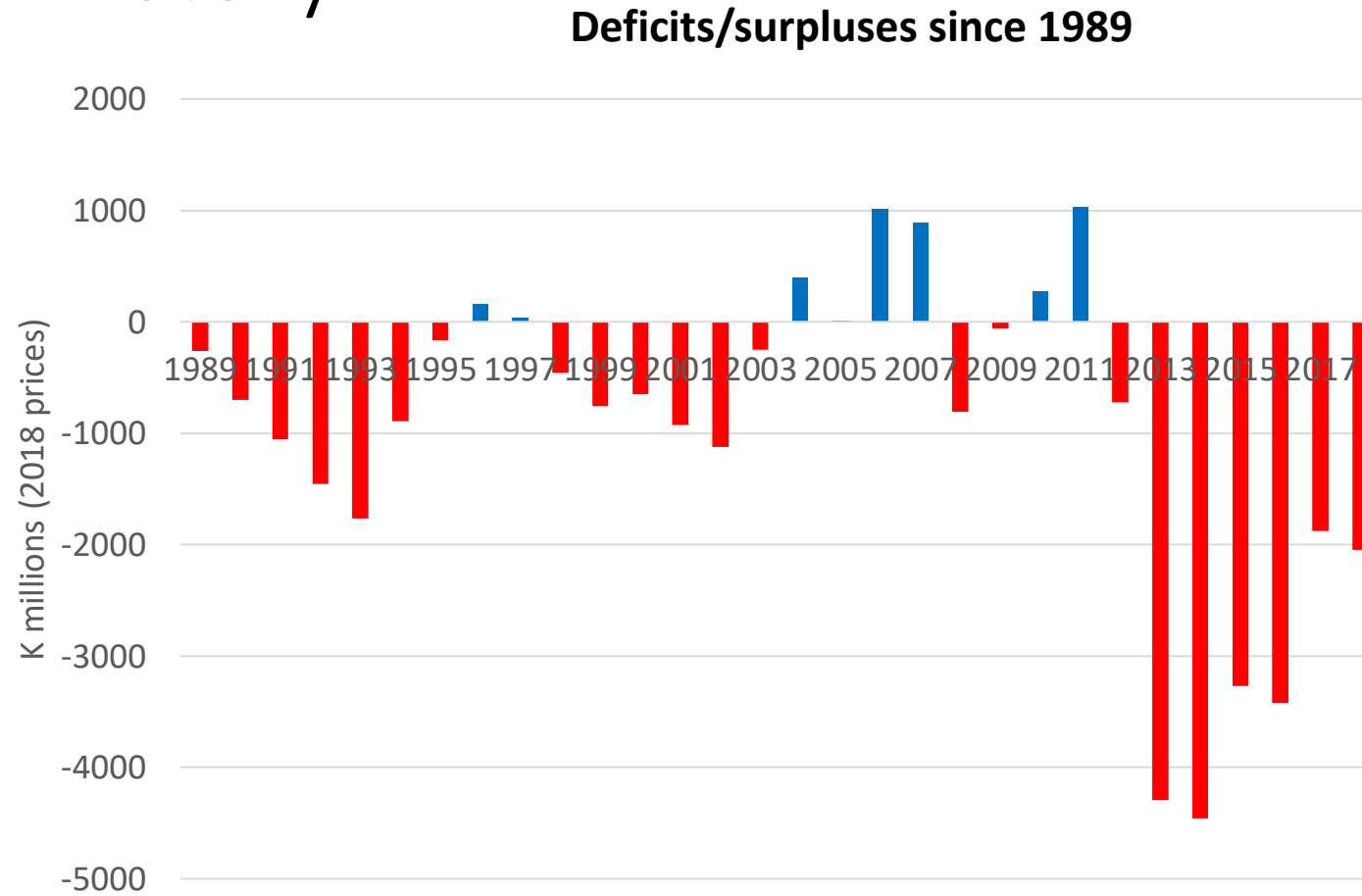
In 2018, employee compensation was around 1 billion Kina over budget



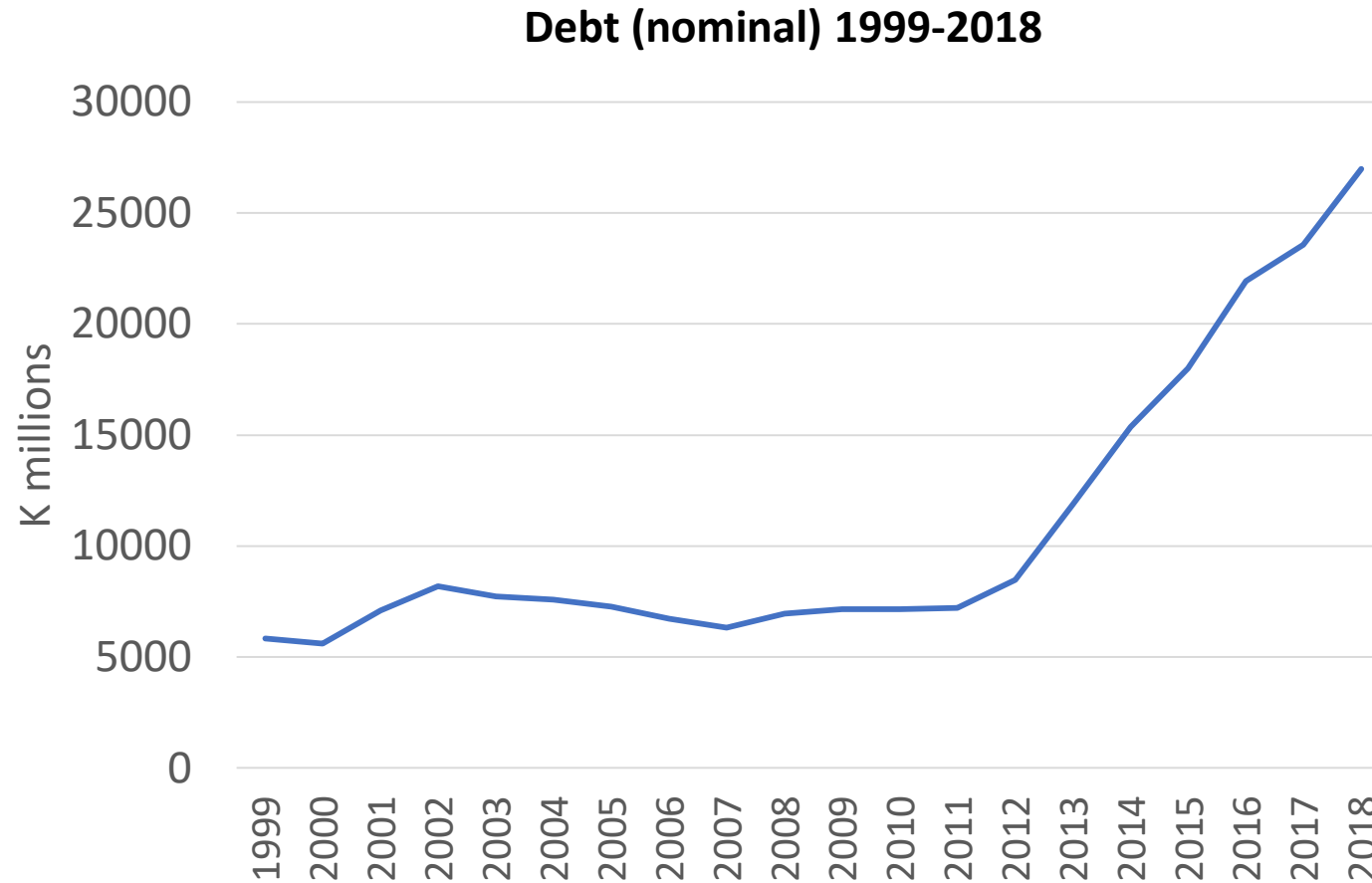
Interest payments steadily rising due to consistent deficits and rising debt



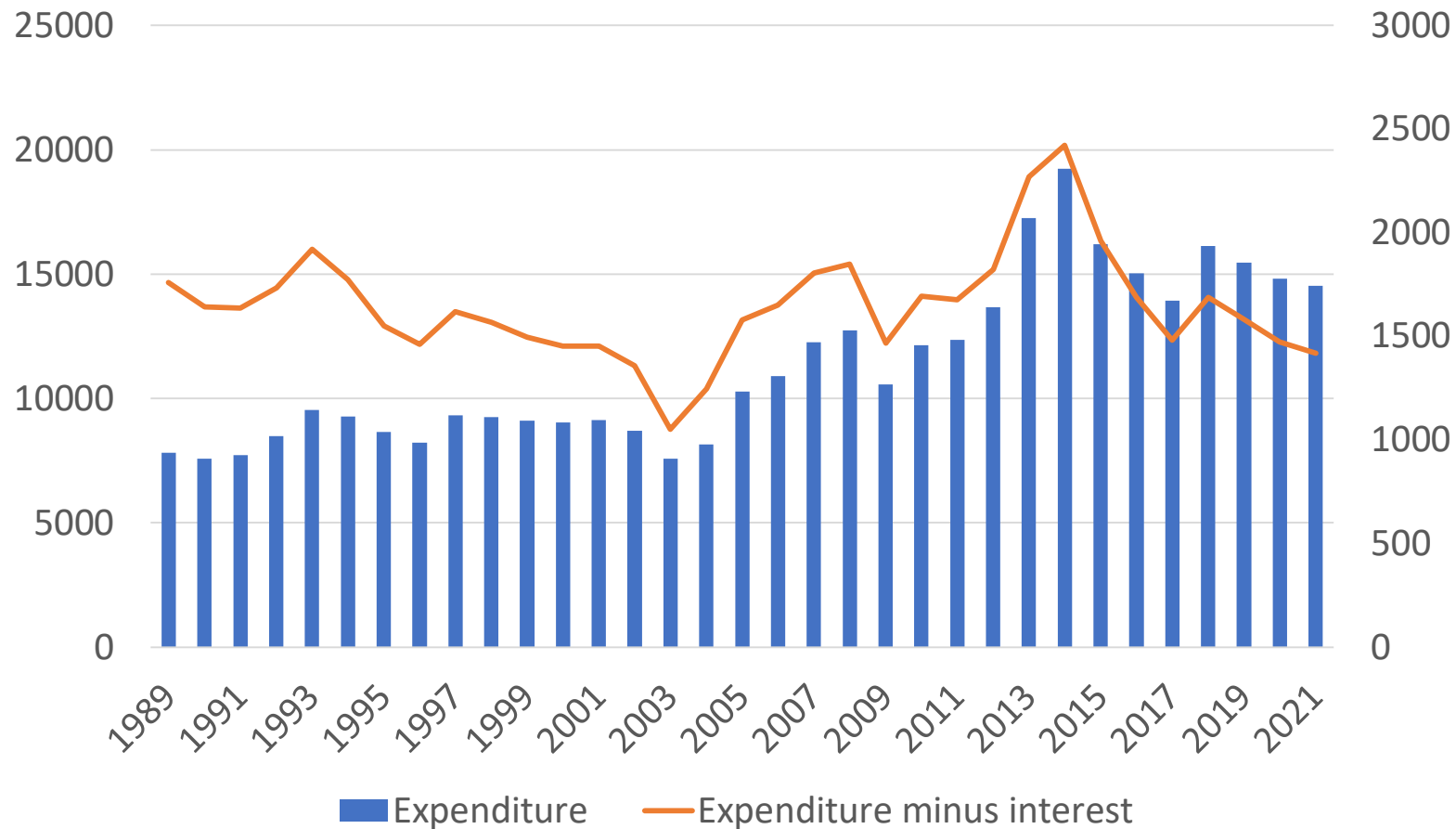
Deficits being clawed back, but still some of the largest in history



Debt continuing on upward trajectory



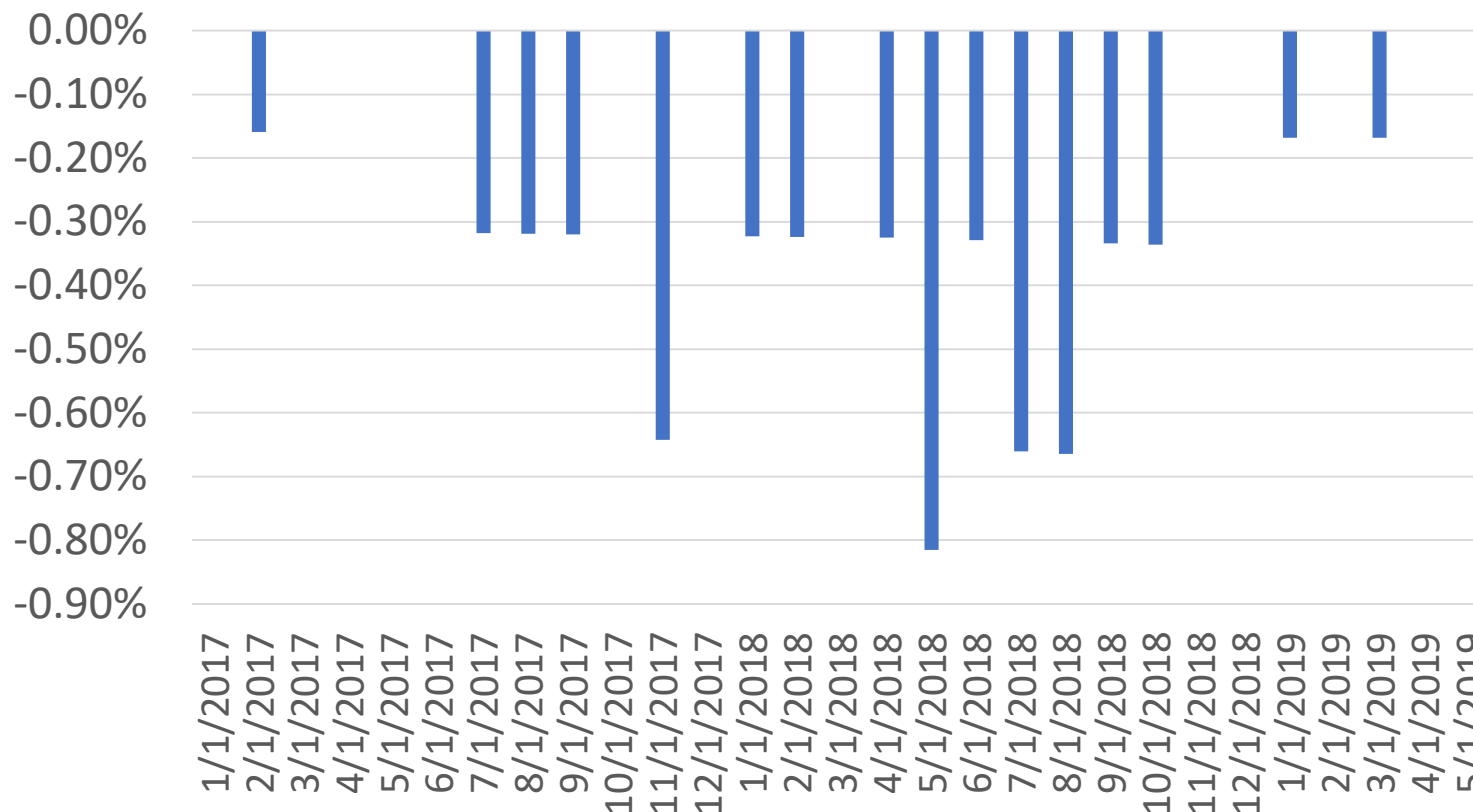
These factors make for an austere expenditure outlook.



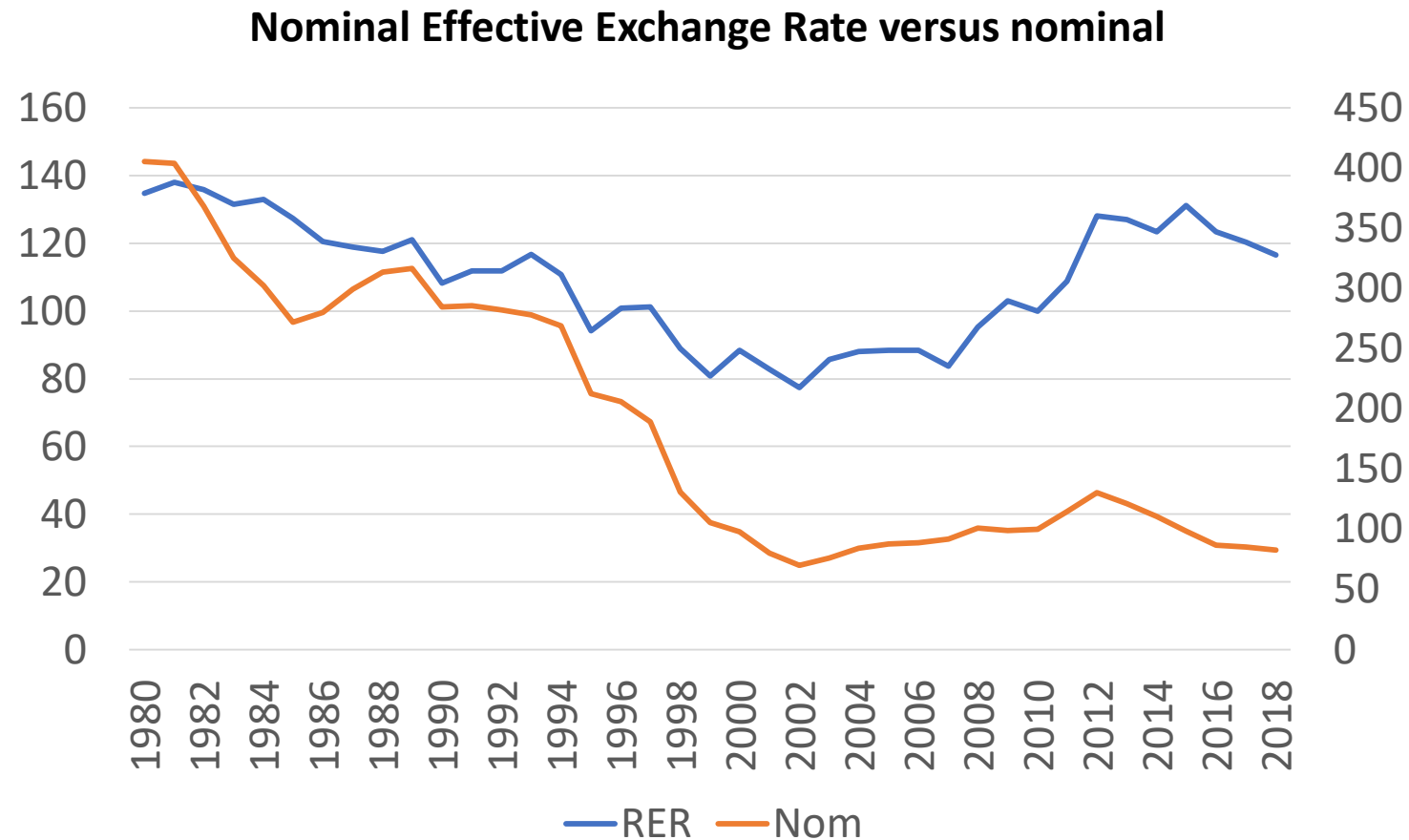
Macro and policy issues

The exchange rate has seen minor depreciation since 2017, however more is needed

PGK/USD Exchange Rate Percentage Change (Jan 2017 – May 2019)



The real exchange rate shows little depreciation from its historically high levels

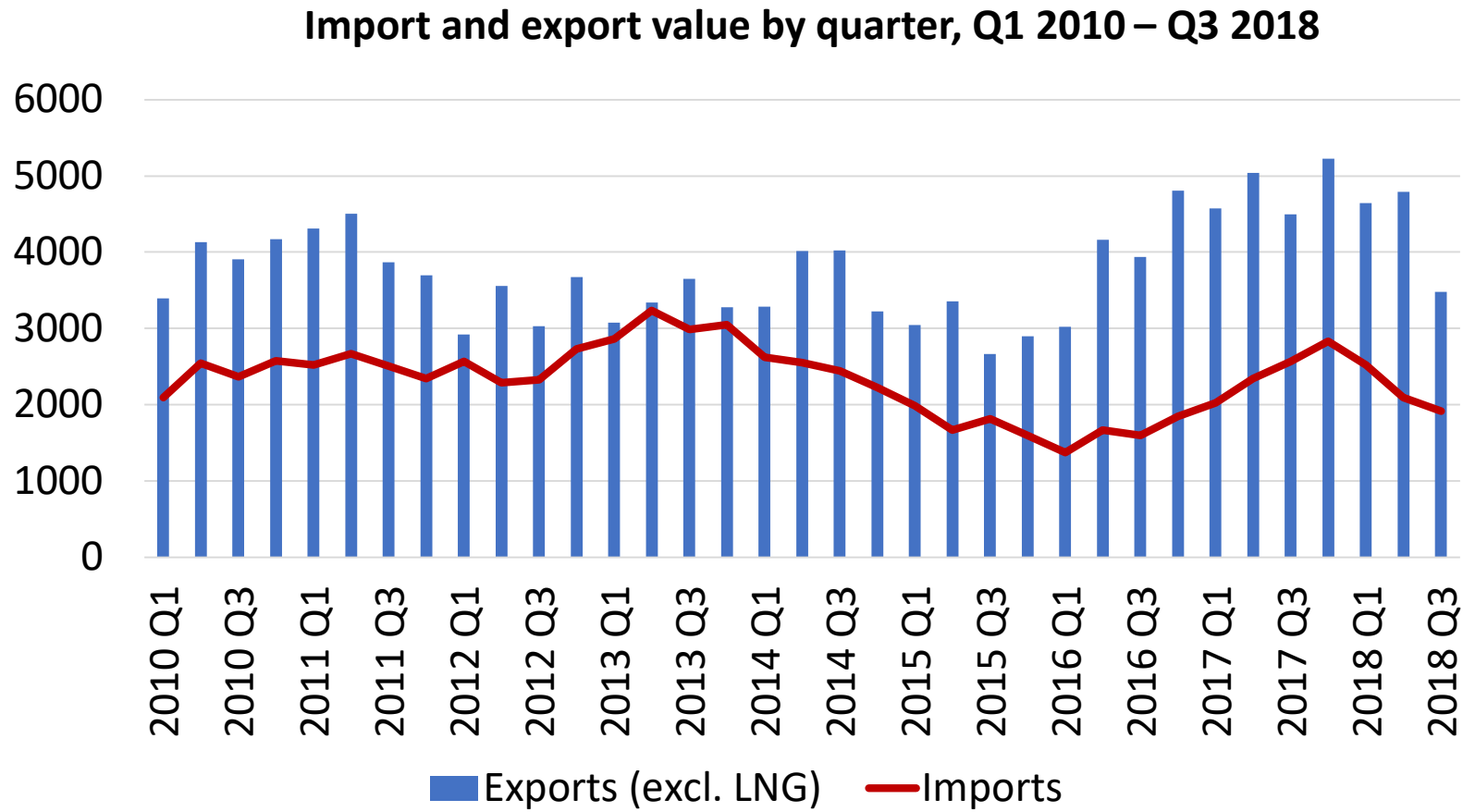


2019 Tariffs

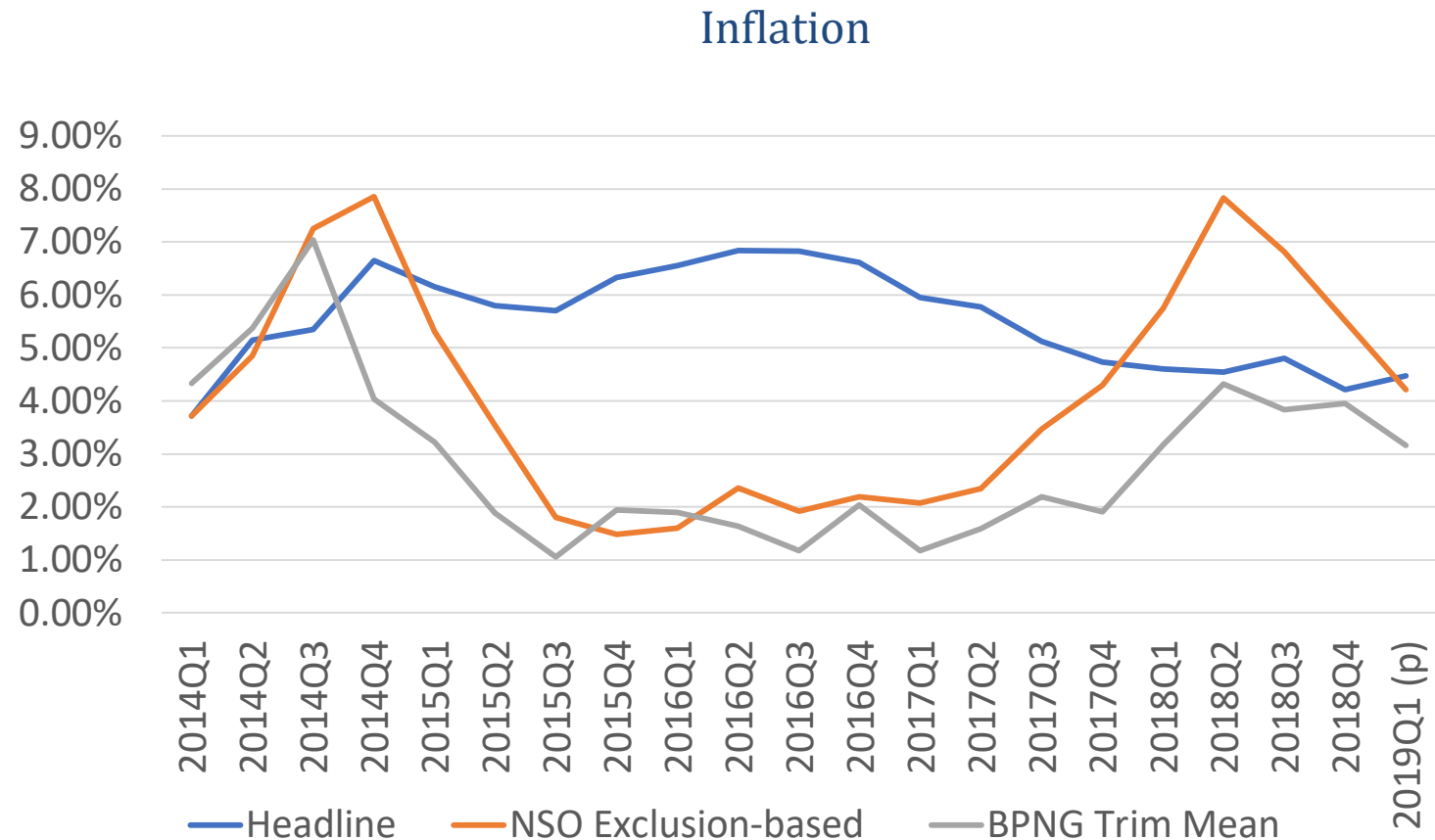
More tariffs in 2019 to improve local competitiveness
(depreciation would also help this)

Tariff	Good	Old rate	New rate
Increases	Prepared or Preserved Fish	10%	25%
	UHT Milk	0%	25%
	Wooden furniture	15%	30%
	Cotton clothing	15%	20%
	Plywood furniture	30%	50%
Decreases	Men and Women's garments	15%	0%
	Clothing accessories	15%	0%

Falling imports in 2018, partly to do with tariffs



Headline inflation trending downwards



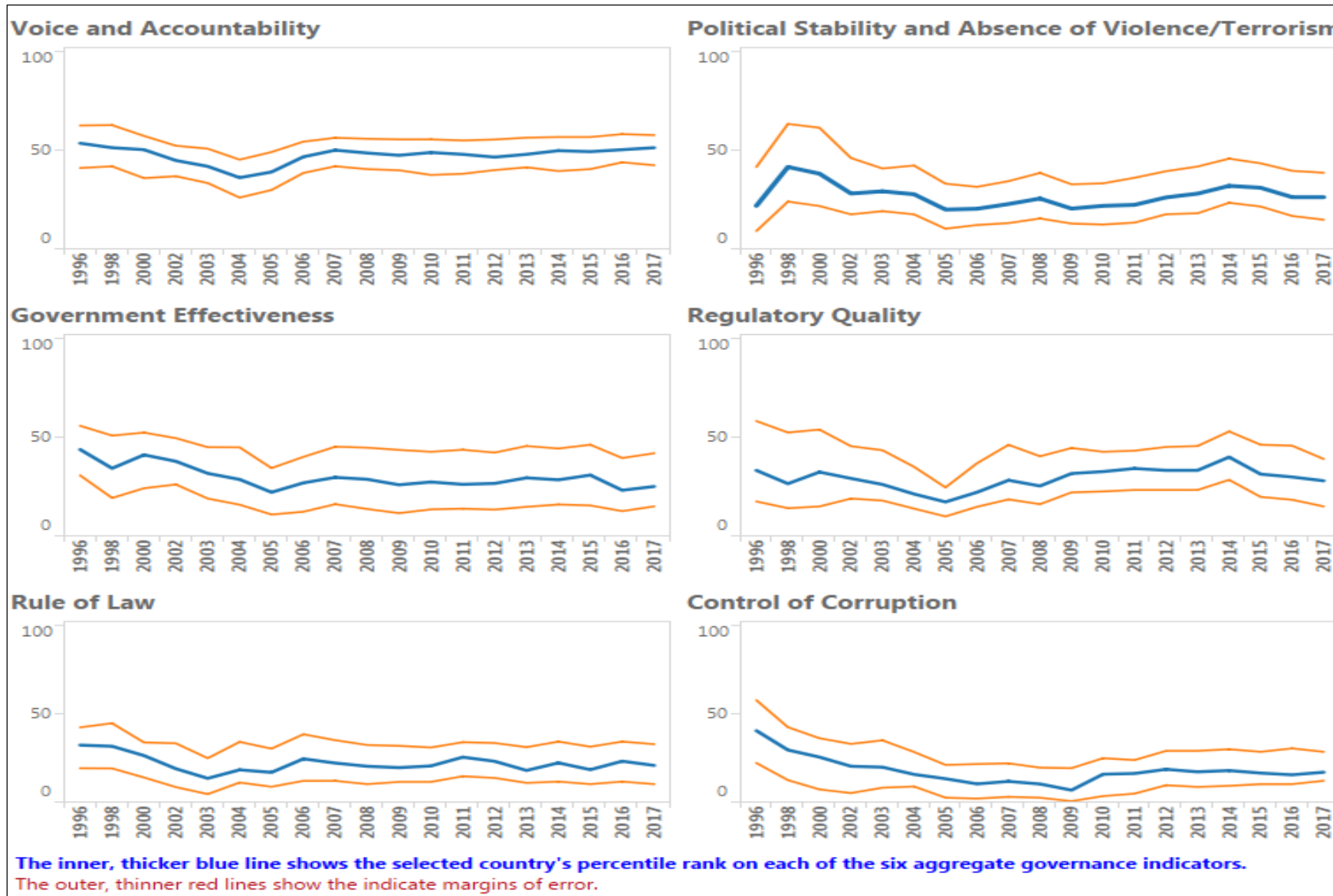
Governance

Governance indicators for the Pacific

Table: Worldwide Governance Indicators of select Pacific countries (percentile rank*)

Worldwide Governance Indicators	PNG	Fiji	Vanuatu	Solomon Islands	Kiribati	Samoa	Palau	Nauru	Micronesia, Fed. Sts.	Tonga	Guam	Tuvalu
Control of Corruption	17	65	58	60	66	74	41	41	78	51	87	59
Government Effectiveness	25	57	18	15	43	74	44	36	56	44	66	21
Political Stability and Absence of Violence/ Terrorism	26	74	71	55	78	92	80	66	92	74	70	94
Regulatory Quality	28	45	39	21	20	52	29	12	15	37	58	22
Voice and Accountability	51	53	70	63	82	72	89	64	85	68	..	84
Rule of Law	21	46	69	48	70	78	62	24	53	62	88	71

Worldwide Governance Indicators of select Pacific countries (percentile rank*)



Conclusion

Conclusion: to what extent is the economy “struggling and bleeding”?

- Employment did not move from its low base in the first two quarters of 2018, despite APEC stimulus and 5000 extra government staff employed in 2018
- Non-resource growth better in 2018, but perhaps due to APEC. 2019 will be a better indicator, with recent data suggesting poor performance
- Shortage of foreign exchange temporarily better due to sovereign bond, but is still businesses’ number one concern
- The economy is not yet on a path to recovery

Conclusion: reforms to accelerate growth

- New PM has an opportunity to make a commitment to transparency and rule of law, and advance human capital, in order to address long-term governance issues
- To stimulate economic growth, employment and broad-based revenues, the government needs to depreciate the exchange rate, since this is the only way to address foreign exchange shortages.

Tenkyu tru!

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Balance of payments

