

PACIFIC ECONOMIC MONITOR, JULY 2014

Papua New Guinea

Economic growth and job creation

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OUTLINE

1- What impact has a decade of economic growth had on job creation. What evidence is there for a growing 'middle class'?

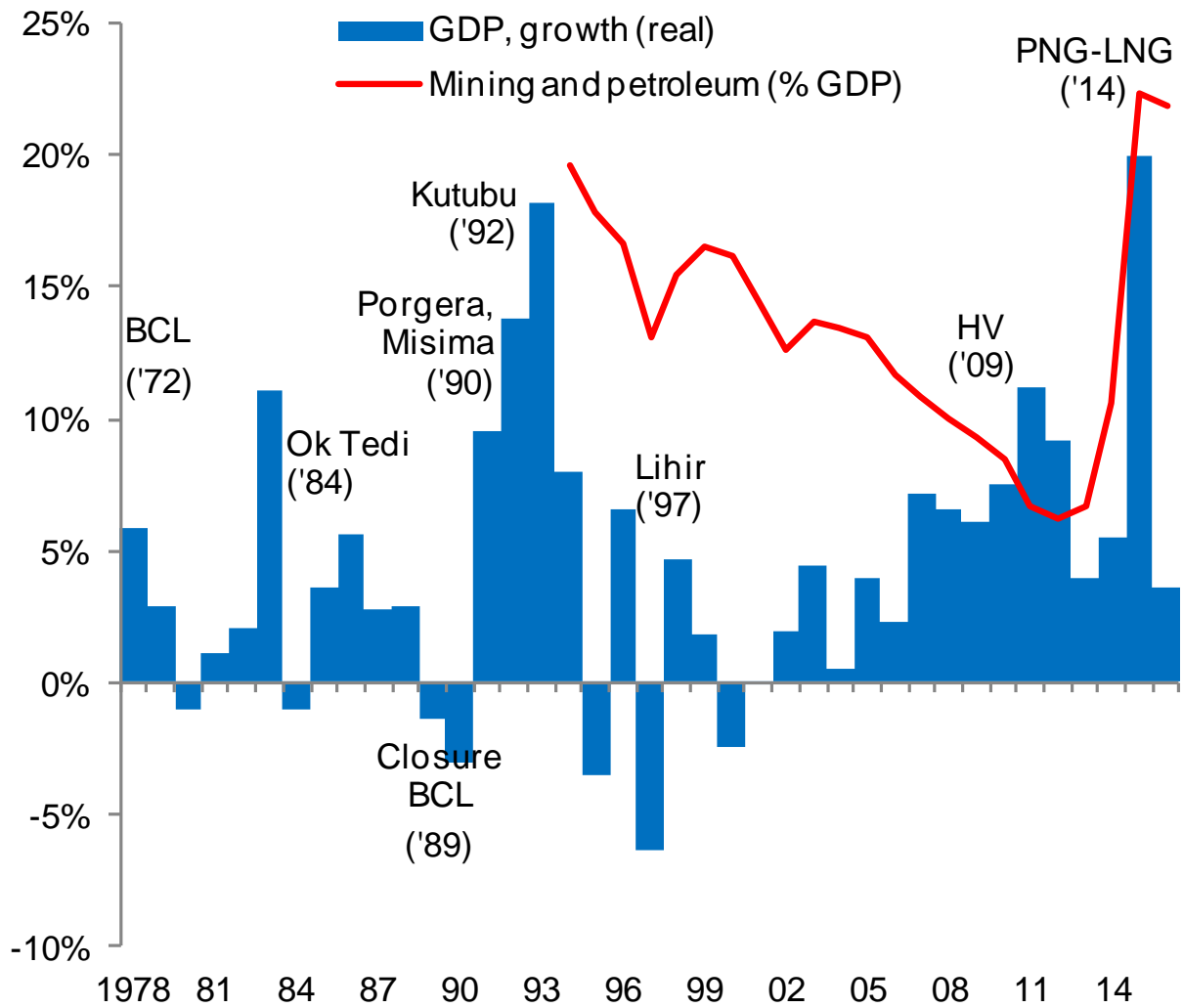
2- What policy lessons can we learn for fostering more formal sector job opportunities into the future?

Cautionary note:

Data is poor quality.

ECONOMIC GROWTH AND JOB CREATION

PNG has now undertaken the largest, and longest, economic expansion in its history....



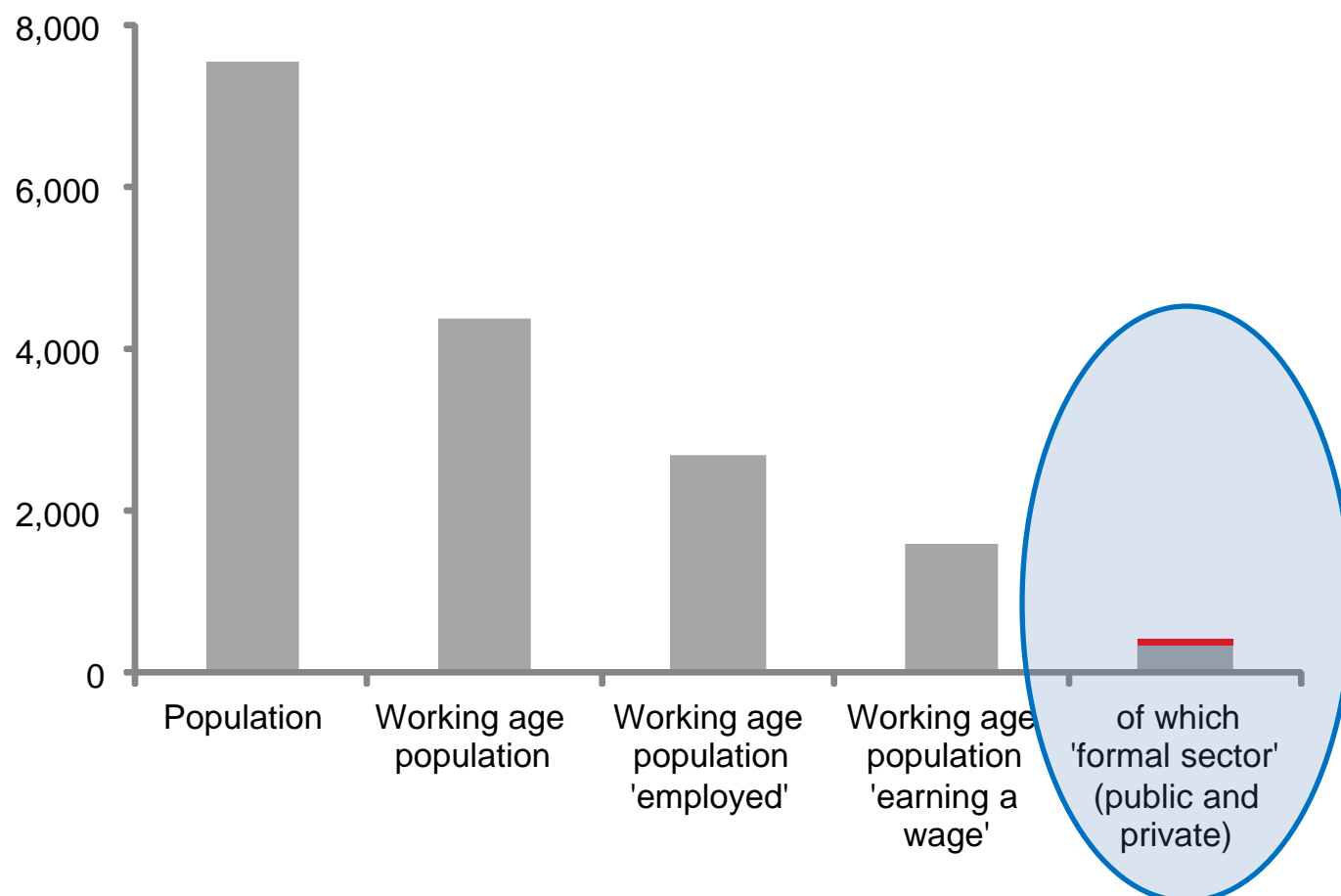
Source: National Budget Documents (various years), ADB ADO 2014.



ECONOMIC GROWTH AND JOB CREATION

On the one hand, PNG economy remains mostly informal, with limited formal sector job opportunities.

Population and employment (000's)



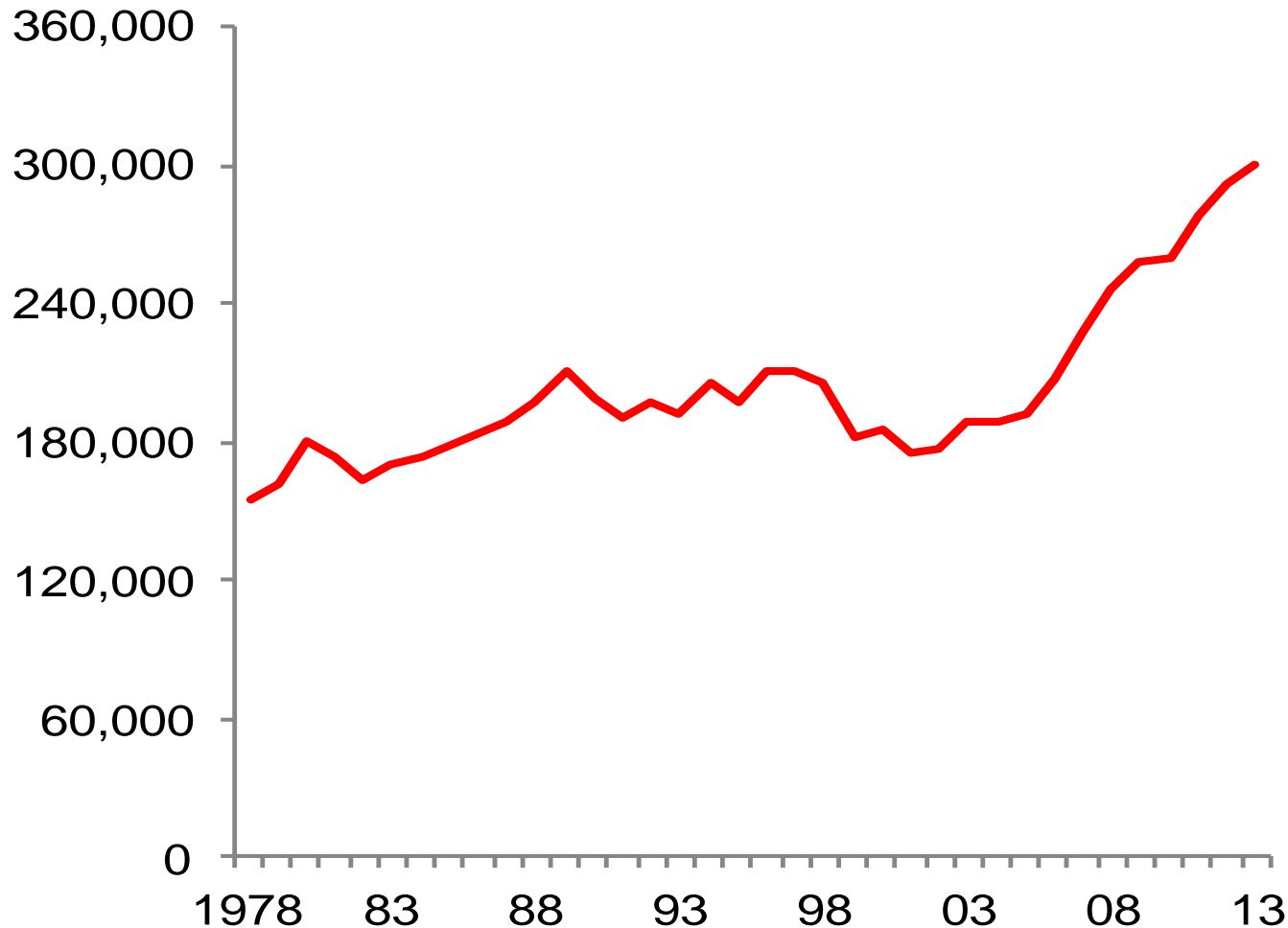
Source: Census (2010), ILO, HIES 2009/10, McGavin (2001), QEB, author's calculations.



ECONOMIC GROWTH AND JOB CREATION

...but there have been some positive changes in formal job growth over the last decade ...

Formal private sector jobs (number)

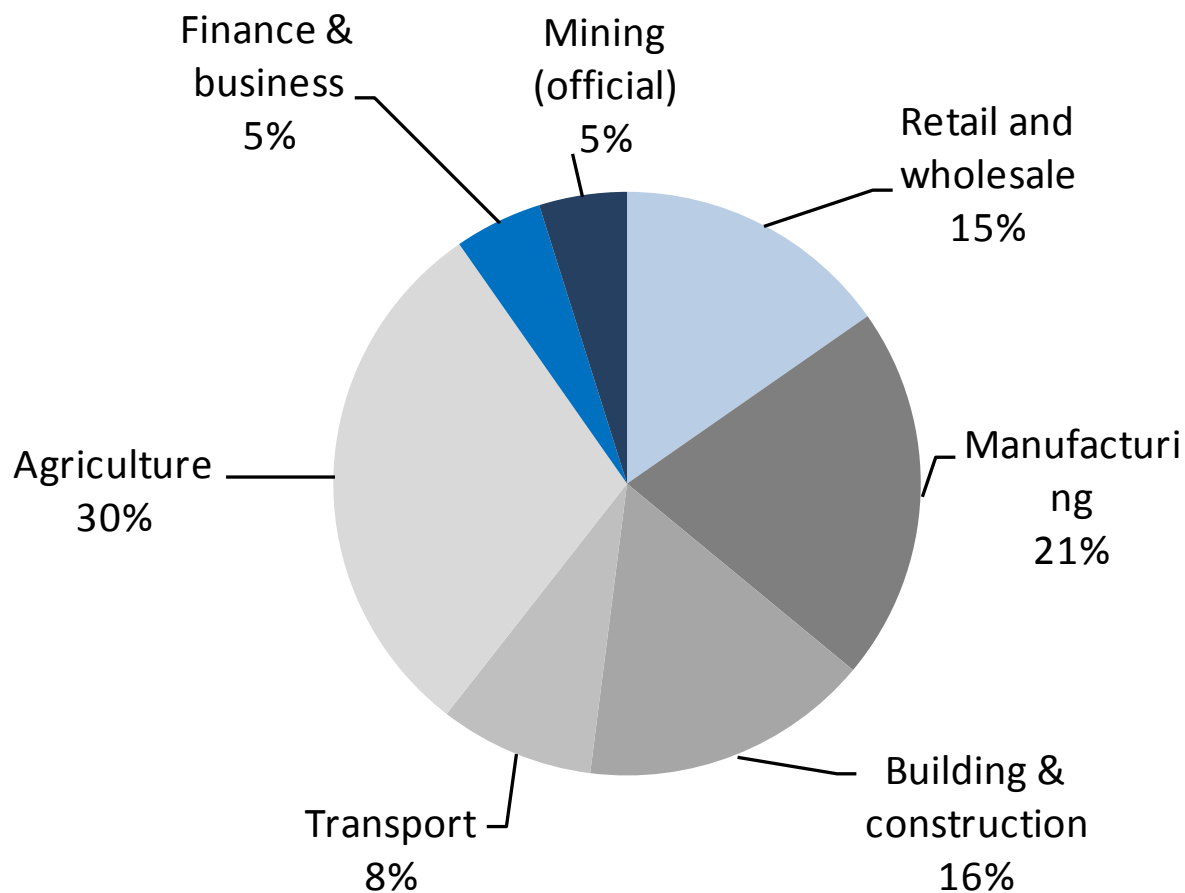


Source: Census (2010), ILO, HIES 2009/10, McGavin (2001), QEB, author's calculations.

ECONOMIC GROWTH AND JOB CREATION

A large number of sectors have been driving this formal job growth...

Net job creation by sector (2002-2013)



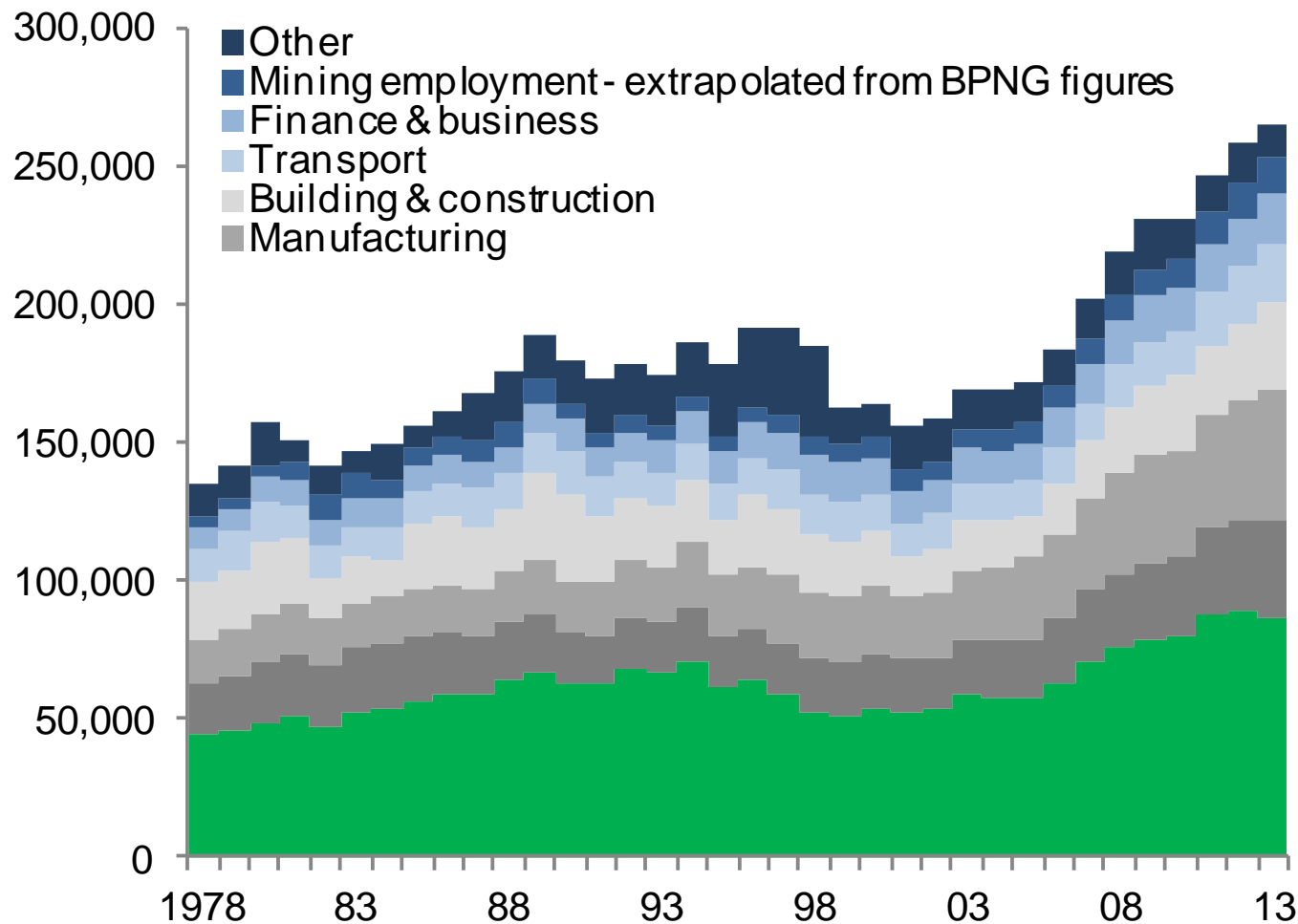
Source: Census (2010), ILO, HIES 2009/10, McGavin (2001), QEB, author's calculations.



ECONOMIC GROWTH AND JOB CREATION

...with agriculture, manufacturing, trading, transport and finance firms as the largest employers...

Formal sector jobs by sector (number, 1978-2013)



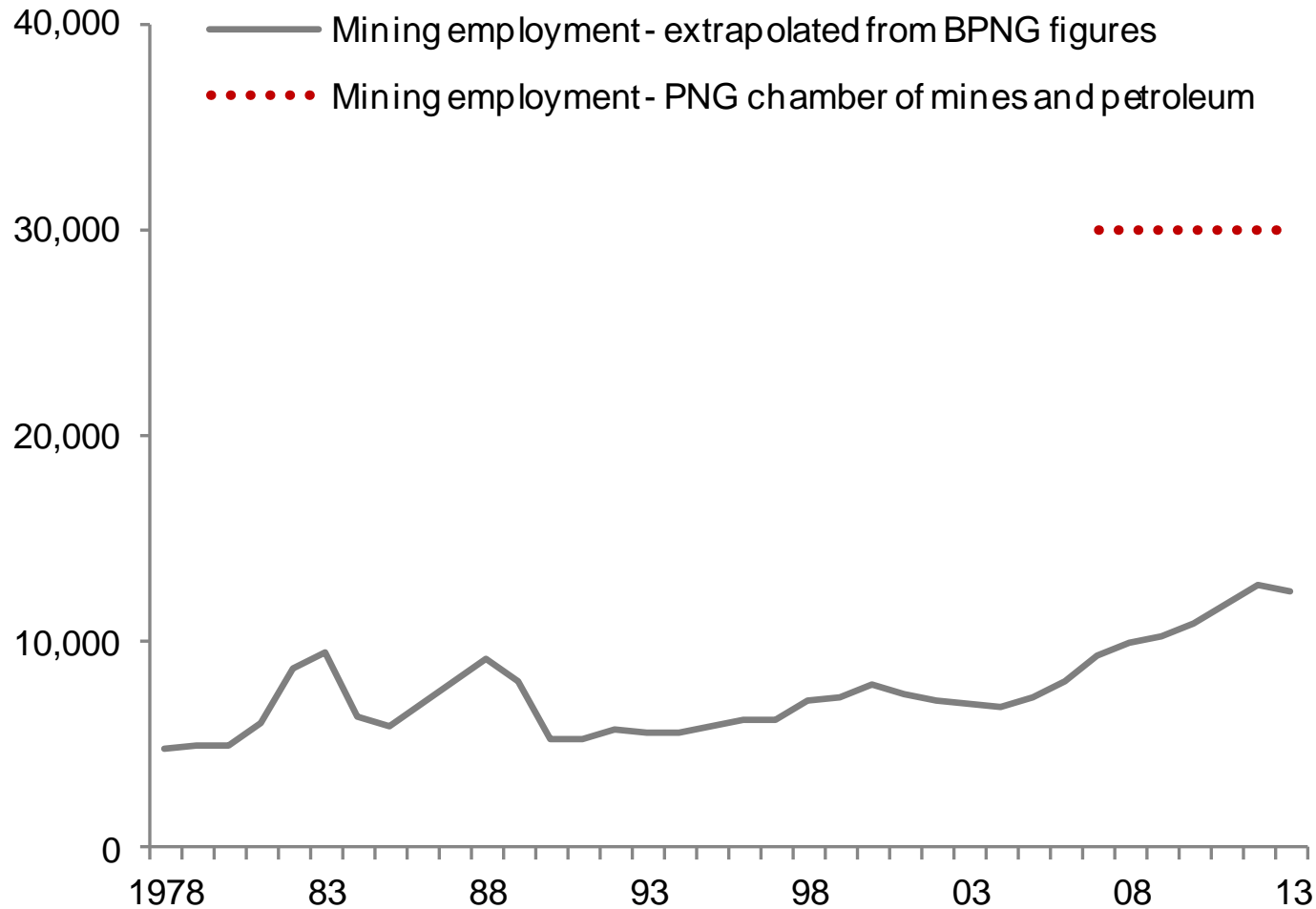
Source: Census (2010), ILO, HIES 2009/10, McGavin (2001), QEB, author's calculations.



ECONOMIC GROWTH AND JOB CREATION

...also likely that official numbers understate the rate of job growth, particularly in mining...

Mining employment by information source (number)

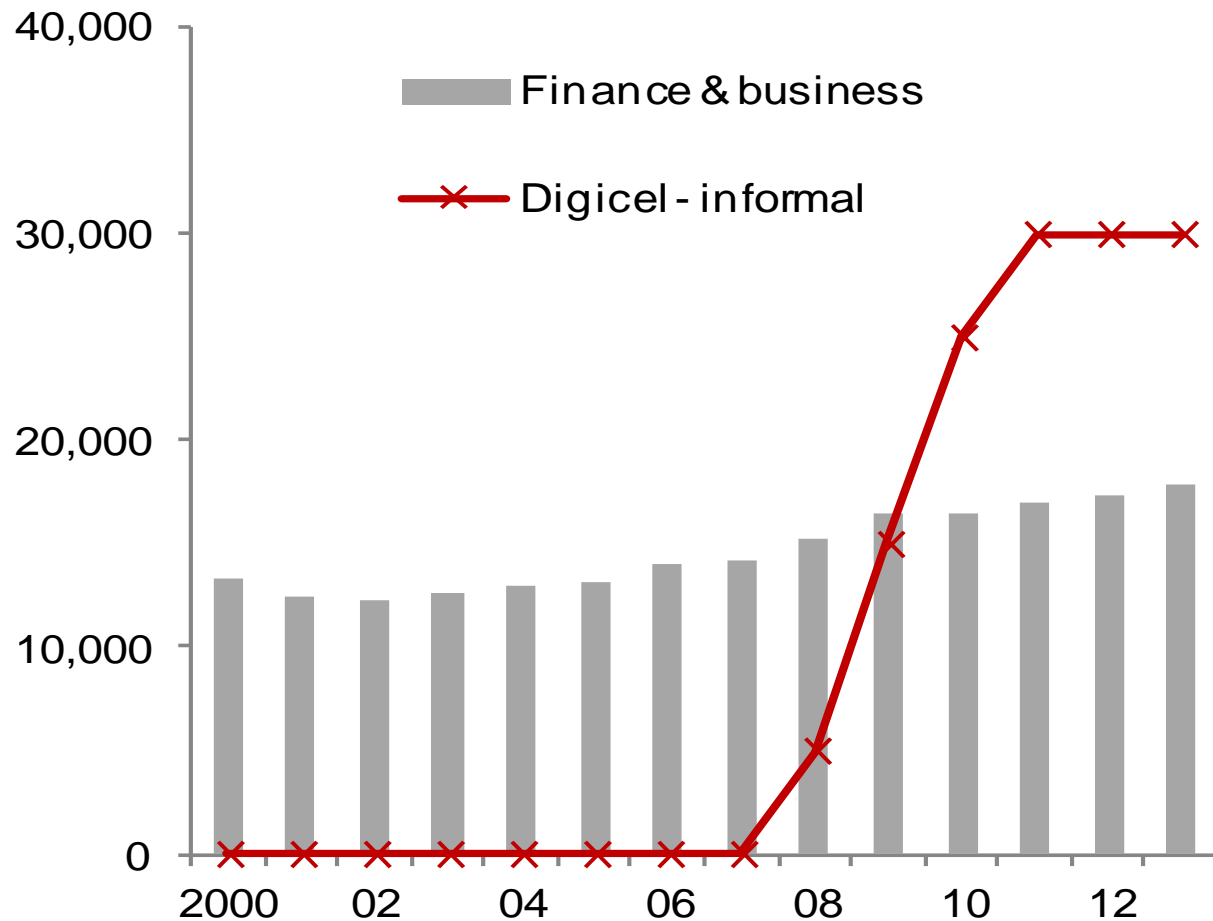


Source: McGavin (2001), QEB, author's calculations.

ECONOMIC GROWTH AND JOB CREATION

...and don't capture the informal job creation by the entrance of new firms like Digicel.

Finance & business sector employment vs. Digicel informal employment (number)



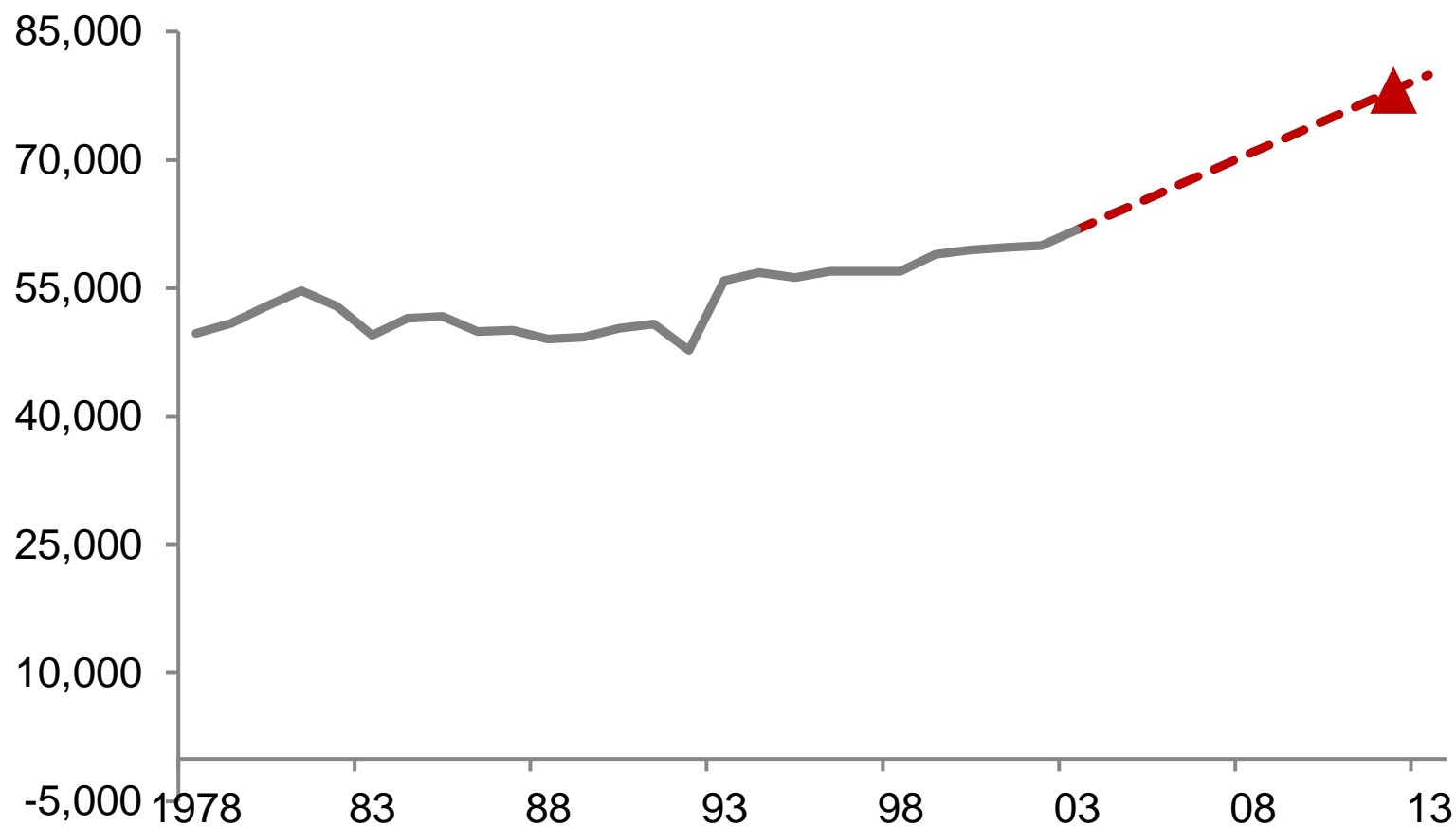
Source: McGavin (2001), BPNG QEB, IFC, author's calculations.



ECONOMIC GROWTH AND JOB CREATION

Public sector employment is no longer published, but estimate put payroll at around 80,000 people...

Public sector employment (1978-2002)



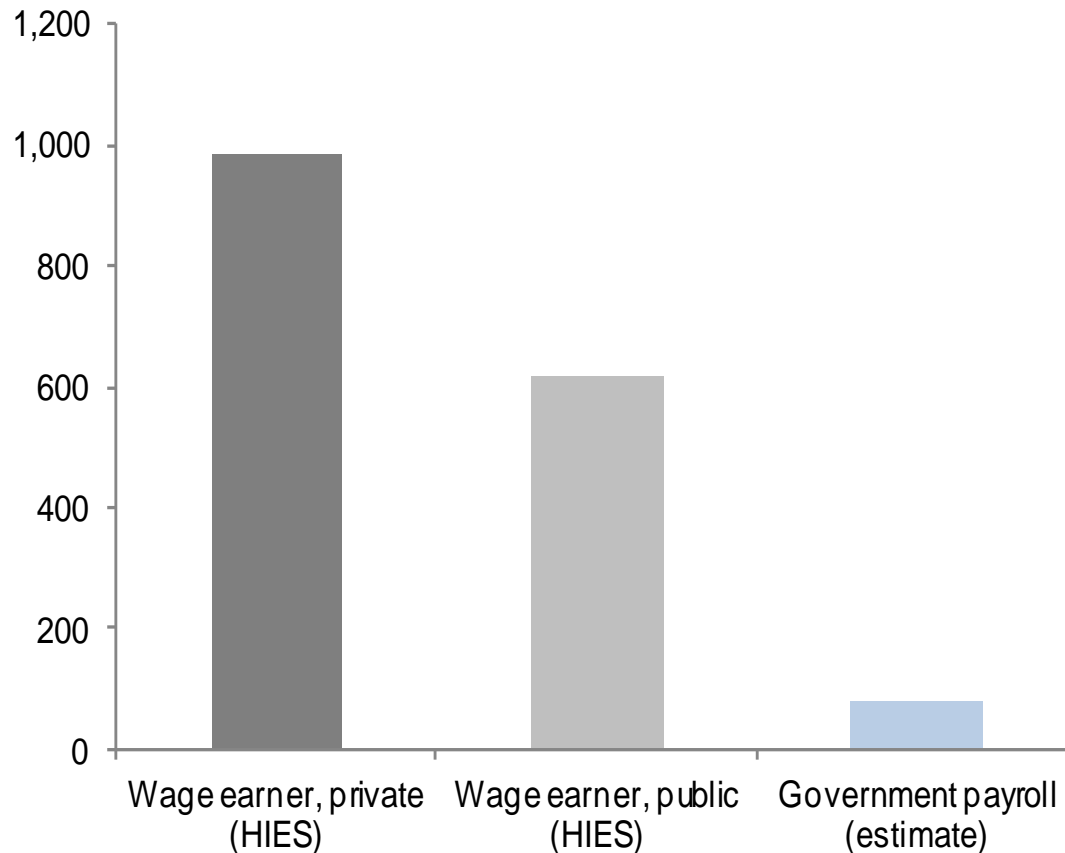
Source: Census (2010), ILO, HIES 2009/10, McGavin (2001), QEB, author's calculations.



ECONOMIC GROWTH AND JOB CREATION

...but this masks a much larger group which are dependent on the public sector in some way...

Public sector employment (1978-2002)



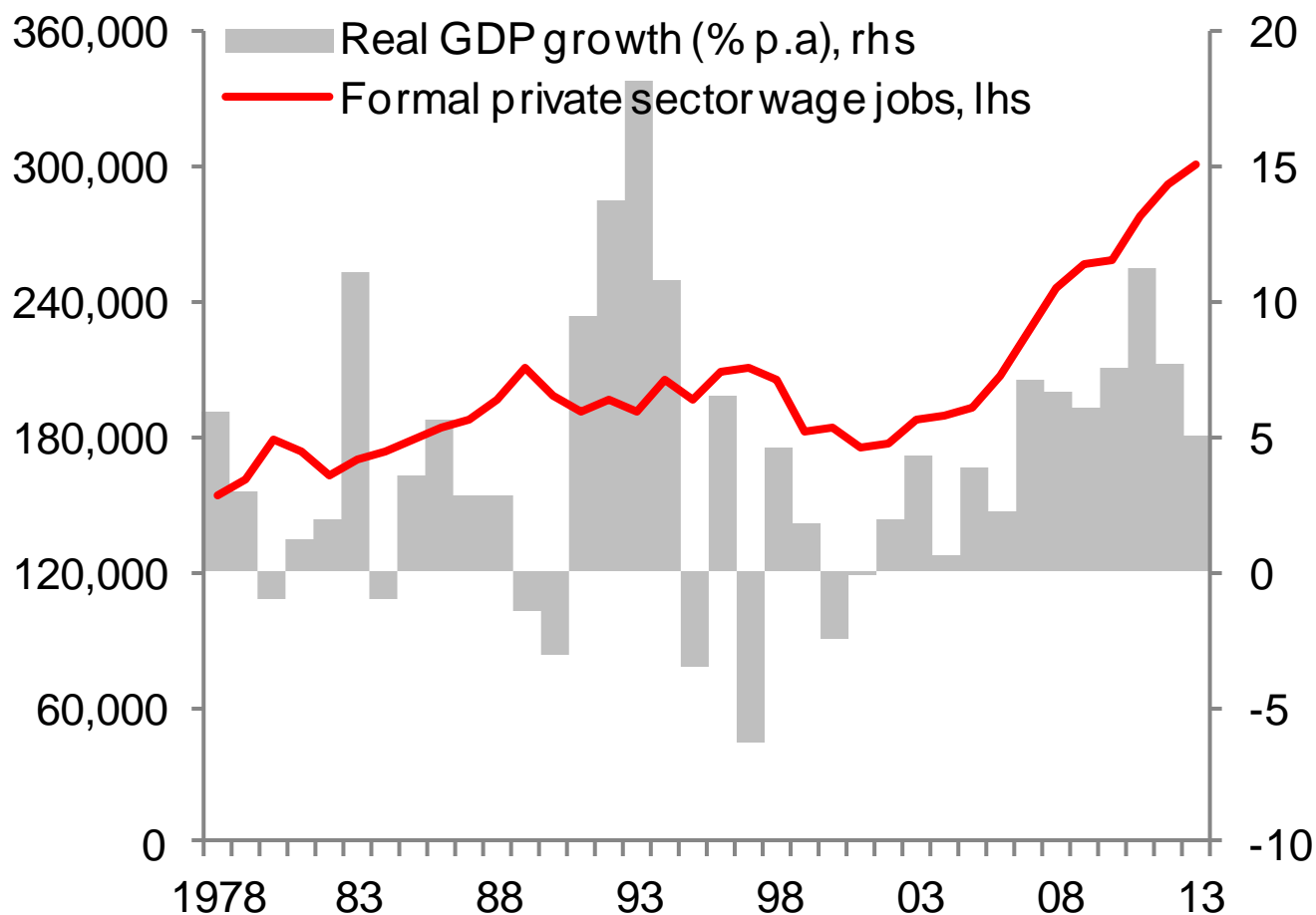
Source: HIES 2009/10, McGavin (2001), QEB, author's calculations.

What policy lessons can we learn for fostering more formal sector jobs into the future?

POLICY LESSONS

High rates of economic growth are not sufficient for broad-based employment creation...

GDP growth by sector (%)



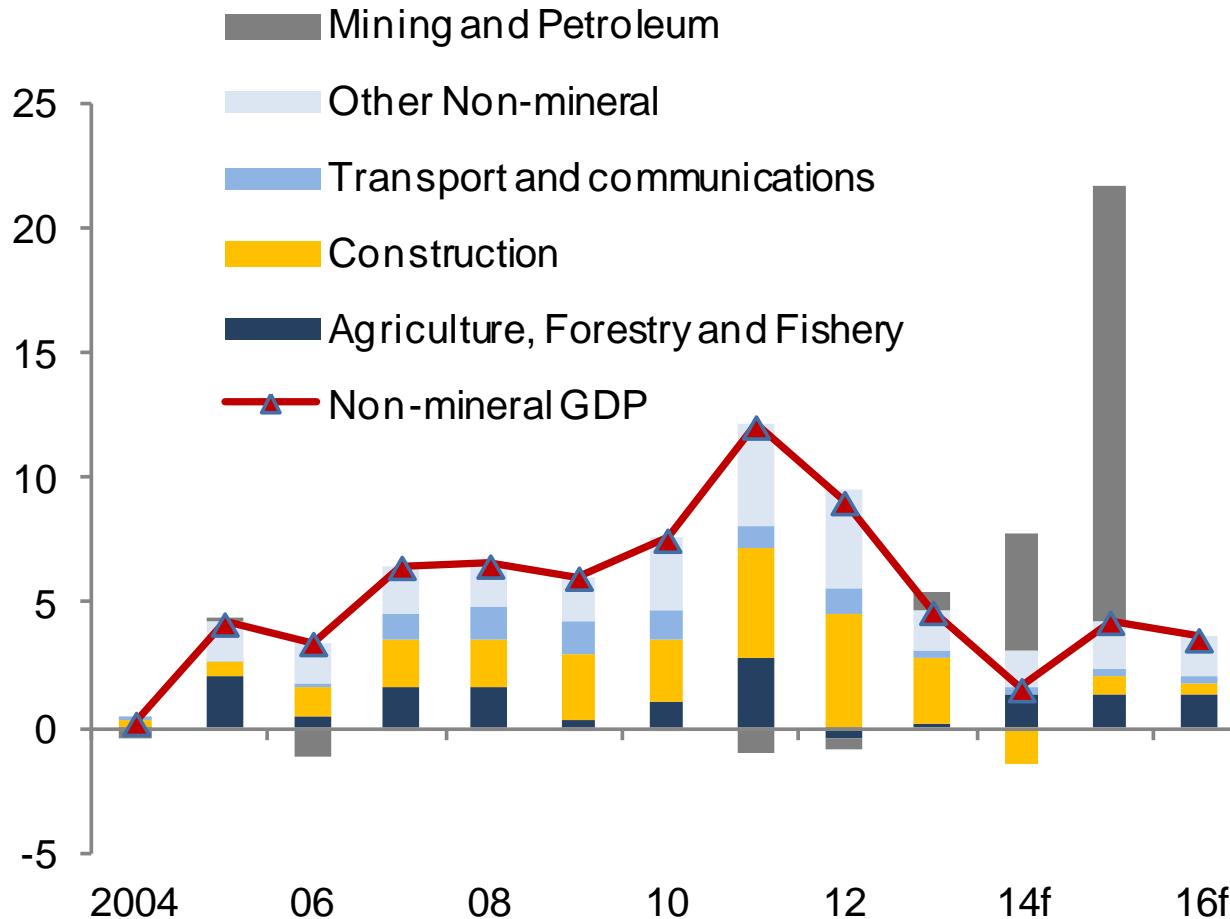
Source: McGavin (2001), QEB, author's calculations.



POLICY LESSONS

...as its the composition rather than the rate of economic growth that matters most.

GDP growth by sector (%)



Source: Budget documents (various years), author's calculations.

POLICY LESSONS

...which above all requires good policy choices to support investor confidence.

1. International conditions

- Commodity prices
- External demand

2. Macroeconomic management

- Introduction and adherence to MTFS I and MTFS II
 - Reduction in public debt, building of fiscal buffers
- Flexible exchange rate with BPNG targeting price stability

3. Structural reforms

- Financial sector reforms in early 2000s
 - Privatization of PNG Banking Corp
 - Strengthening superannuation supervision
 - BPNG independence
- Liberalization of telecommunications in 2006
 - Spread of access to financial services

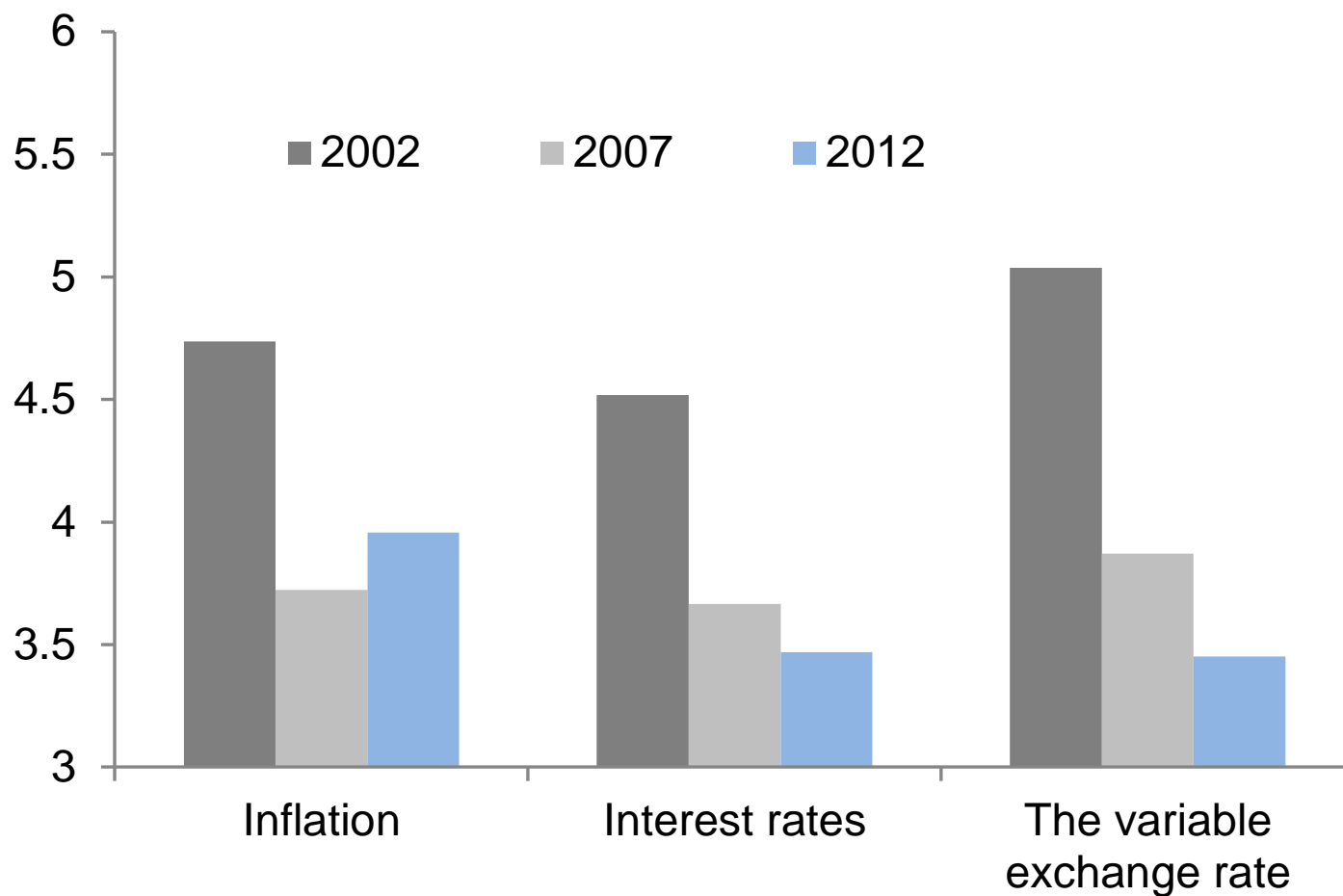
Growing sense of stability and competition has supported investor confidence and their willingness to invest outside mining and petroleum.

Allowed spill-overs from FDI into broader economy.

POLICY LESSONS

...three biggest improvements to business environment related to macroeconomic management

To what extent do the following issues pose a concern to your business? (1 =lowest, 6=highest)



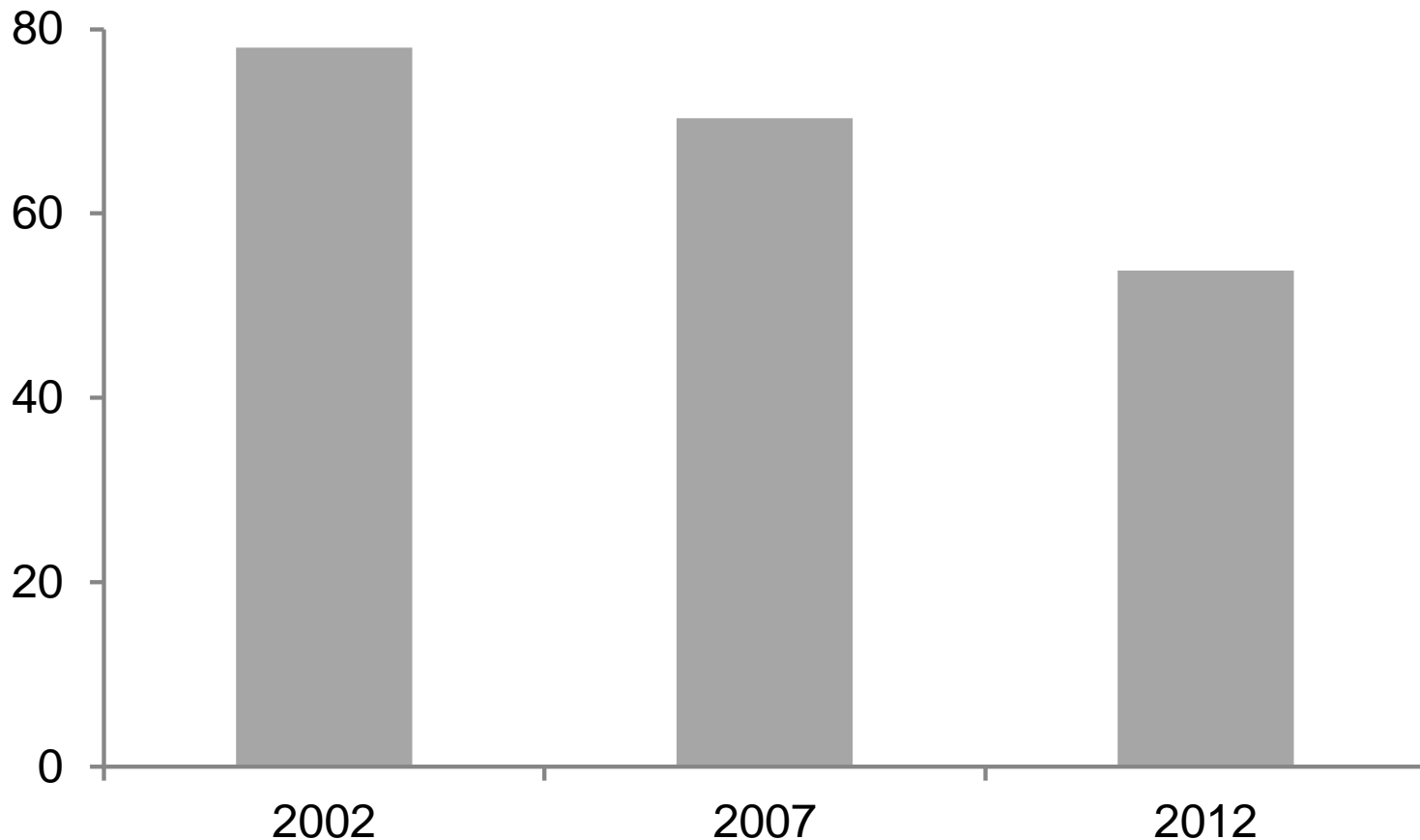
Source: ADB-INA Business Survey, 2002, 2007, 2012.



POLICY LESSONS

...as well a growing sense of stability on the direction of government policy making.

Are you concerned about the stability of government rules and regulations? (yes,%)

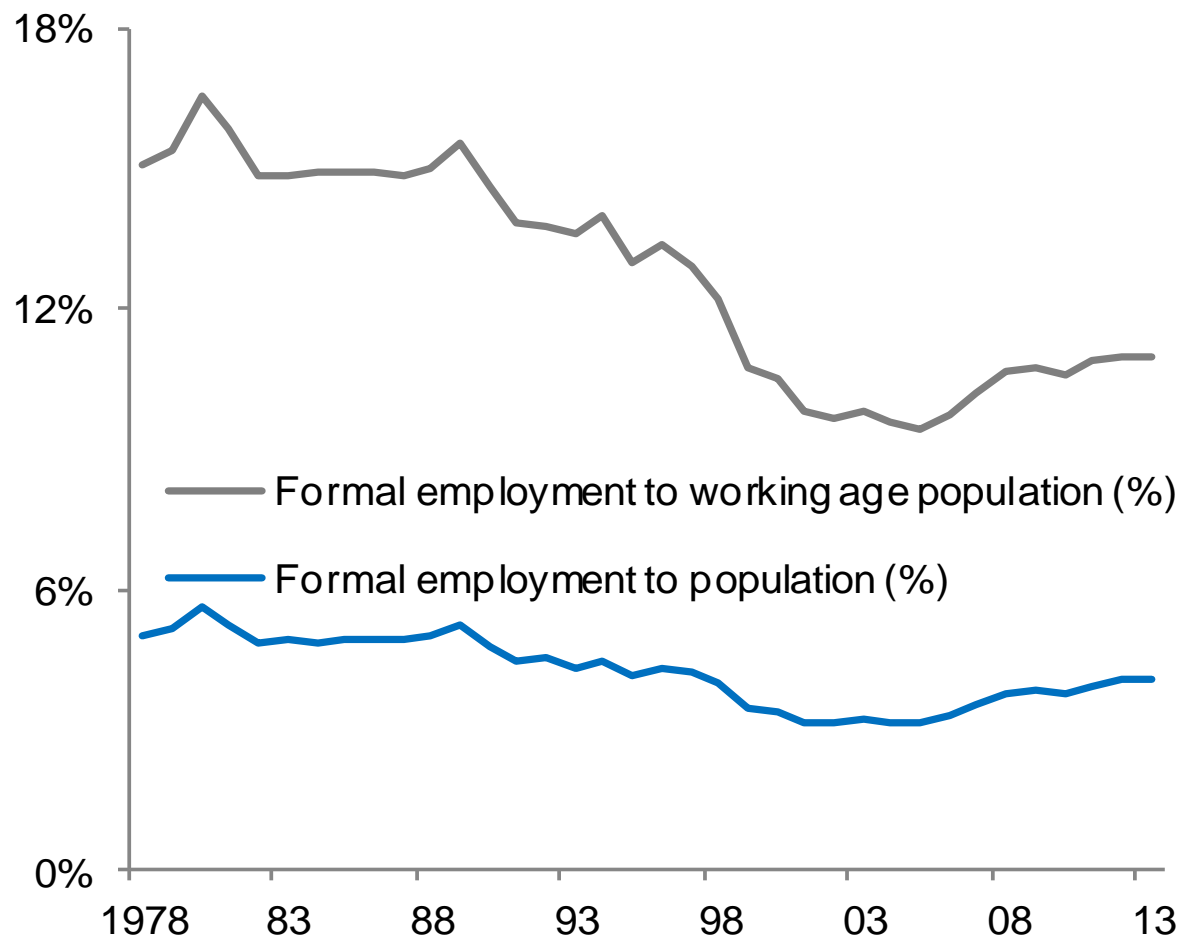


Source: ADB-INA Business Survey, 2002, 2007, 2012.

POLICY LESSONS

However, in spite of impressive growth, the majority of PNG remains excluded from formal job markets...

Formal employment to population (%)



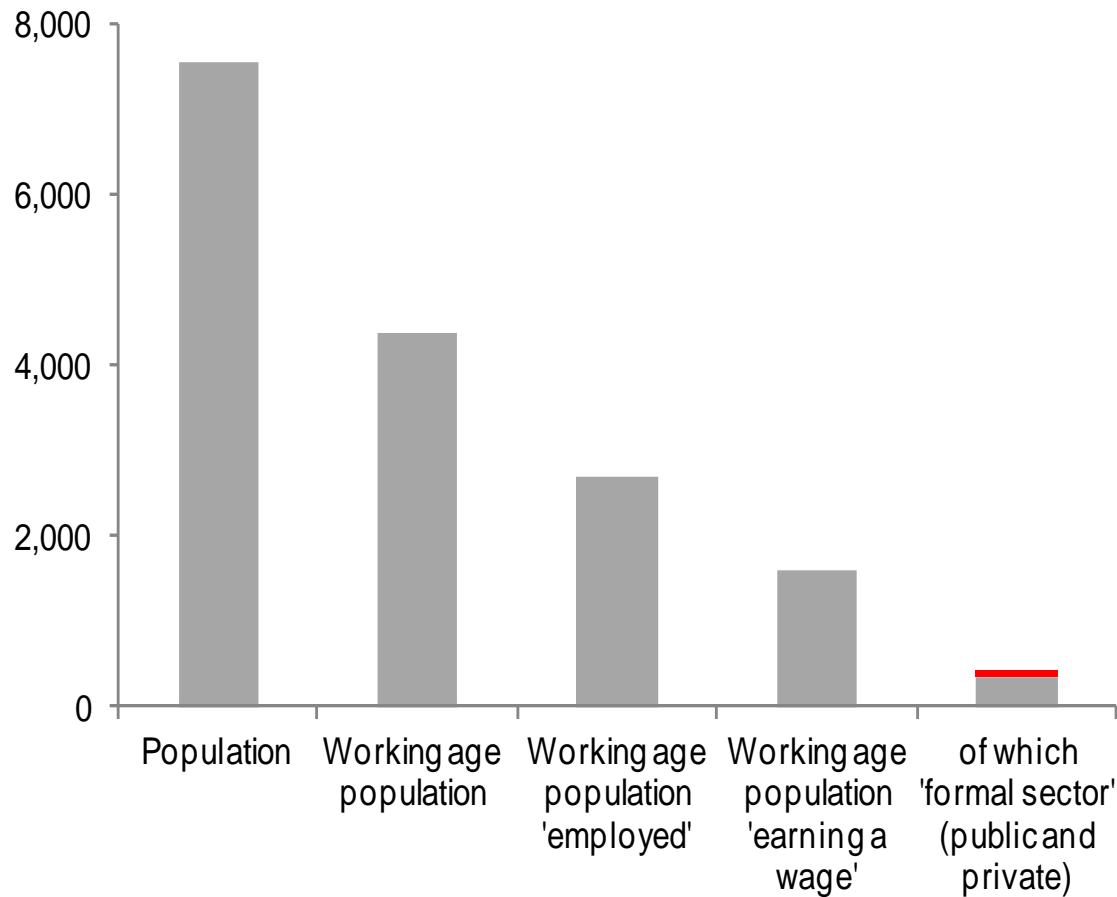
Source: Census (2010), ILO, HIES 2009/10, McGavin (2001), QEB, author's calculations.



POLICY LESSONS

...highlighting the need for labor market policies to focus on services to informal sector workers.

Population and employment (000's)



Source: Census (2010), ILO, HIES 2009/10, McGavin (2001), QEB, author's calculations.

CONCLUSION

- Formal sector employment growth over the last decade has been impressive. Evidence of a larger ‘middle class’ emerging.
- Looking forward, economic growth alone will not generate formal employment. Also require conservative, stable, macroeconomic policy settings that give business the confidence to invest in the future of the country.
- Government policy needs to remain focused on informal employment sector, expanding access to social services and protection measures.