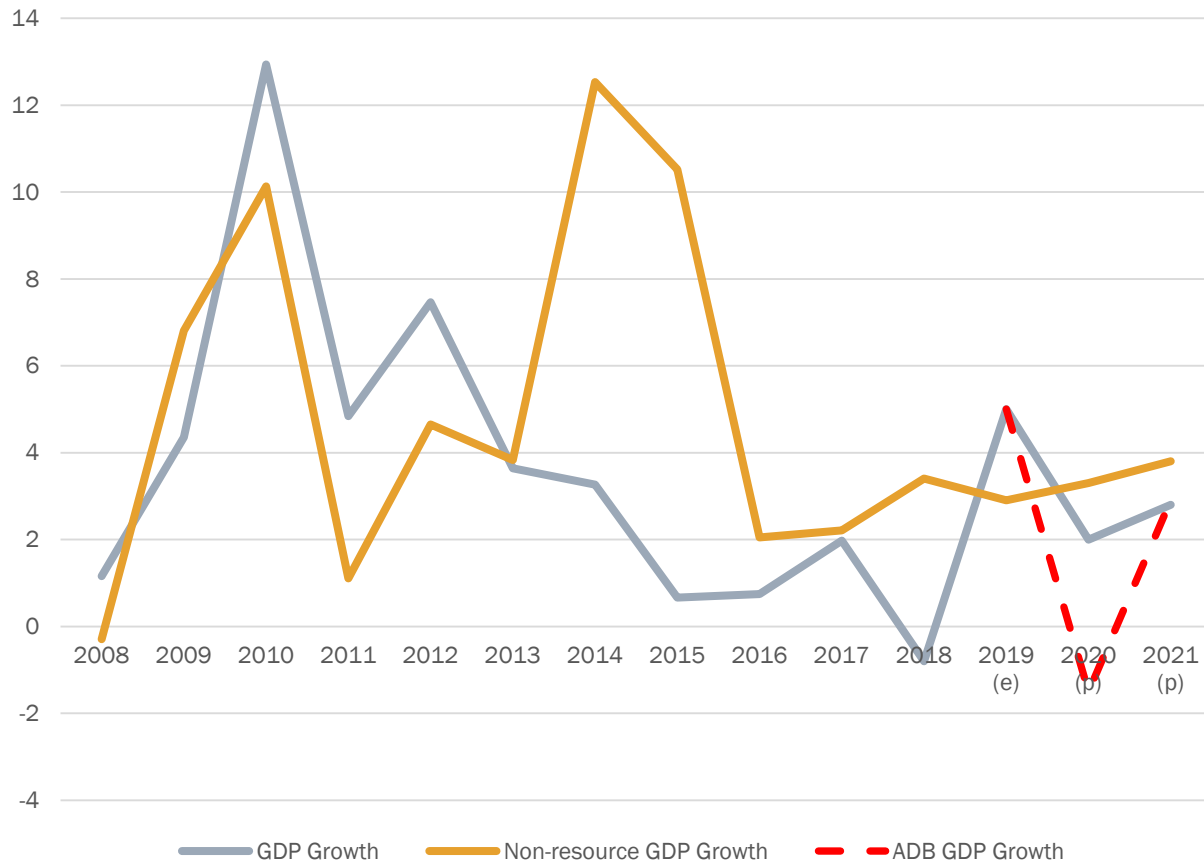




The PNG Economy and Covid-19

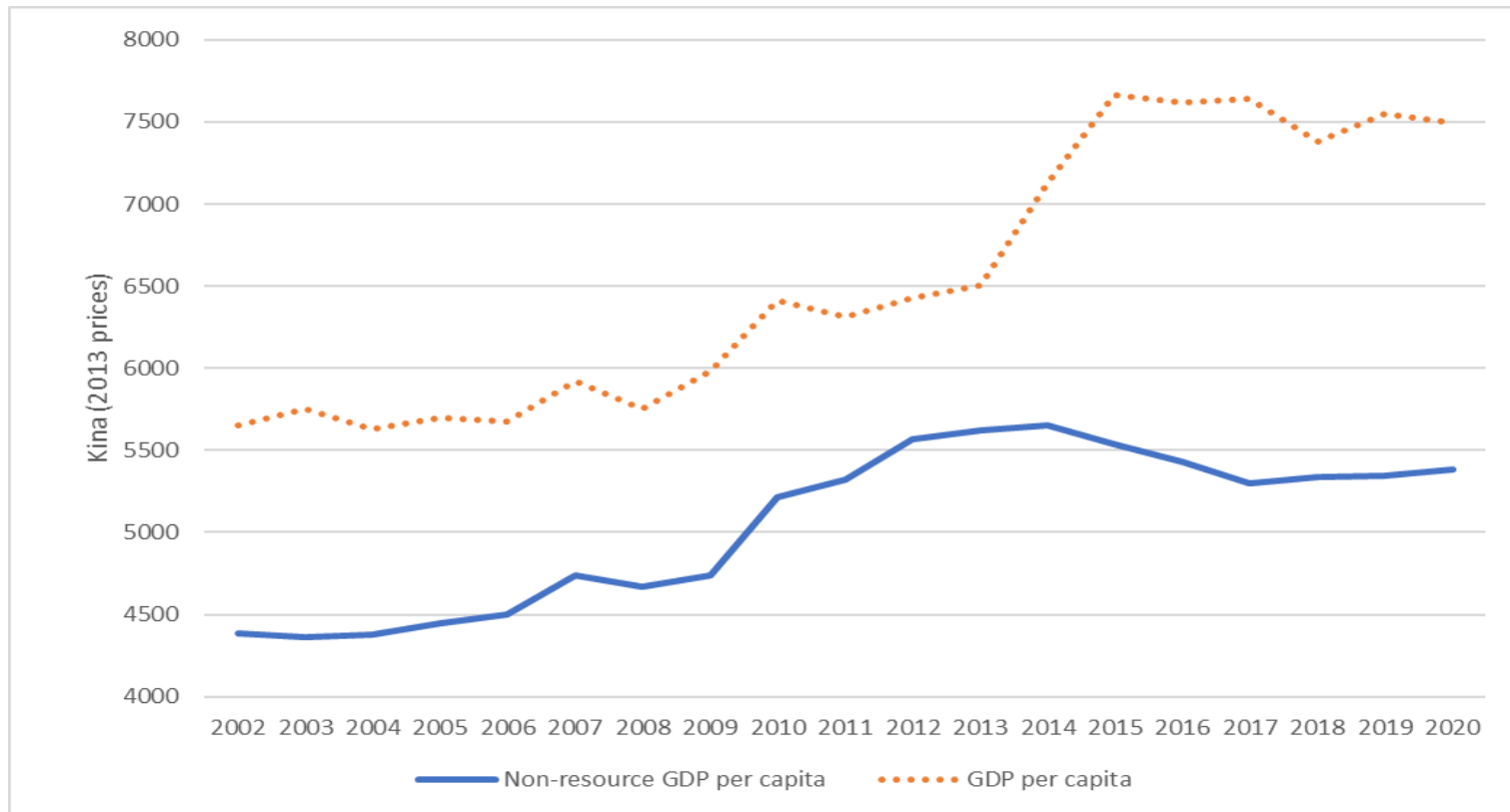
2020 GDP growth



Real GDP growth was recovering following the 2018 earthquake that caused a temporary shutdown in several extractive and mining operations.

Non-resource GDP—slowed post-PNG LNG construction until 2017 and is now in mild recovery.

Pre-COVID growth per capita

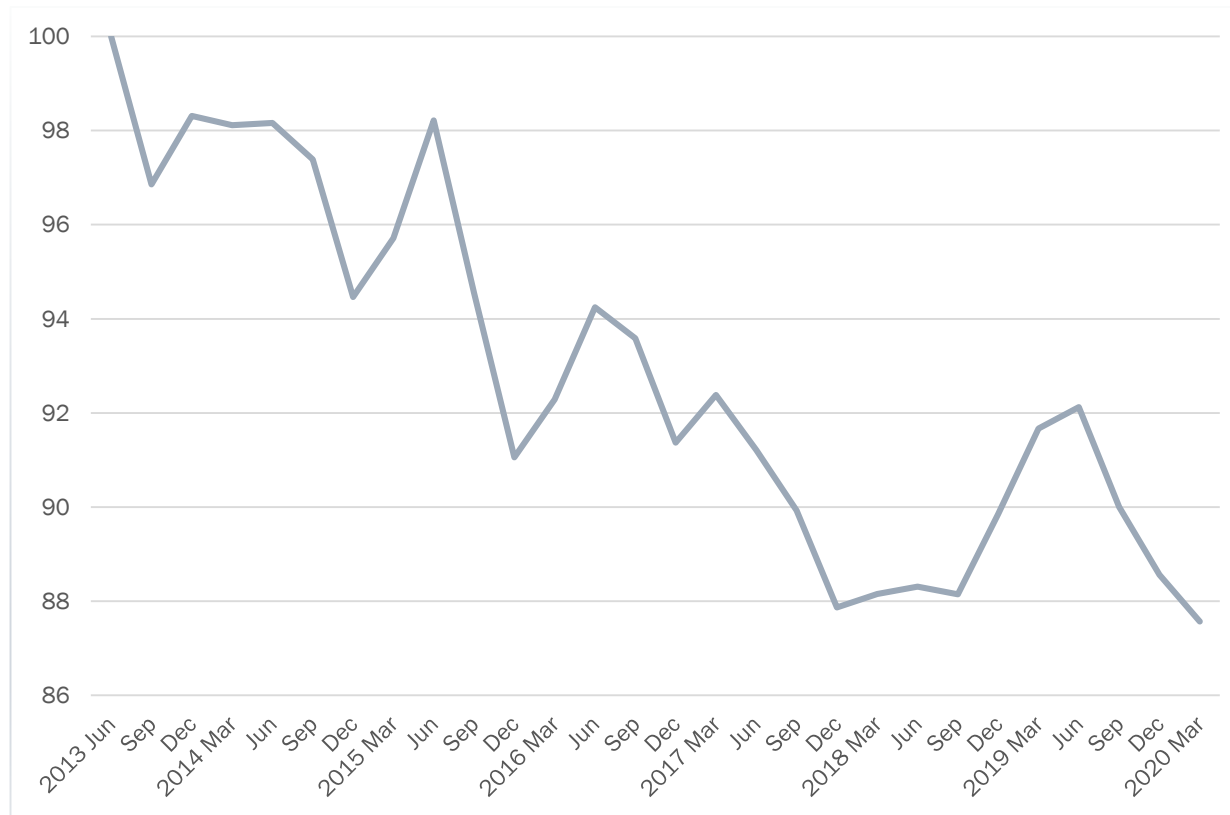


Non-resource GDP pc
average growth:

2002-2013 2.1%

2013-2020 0.2%

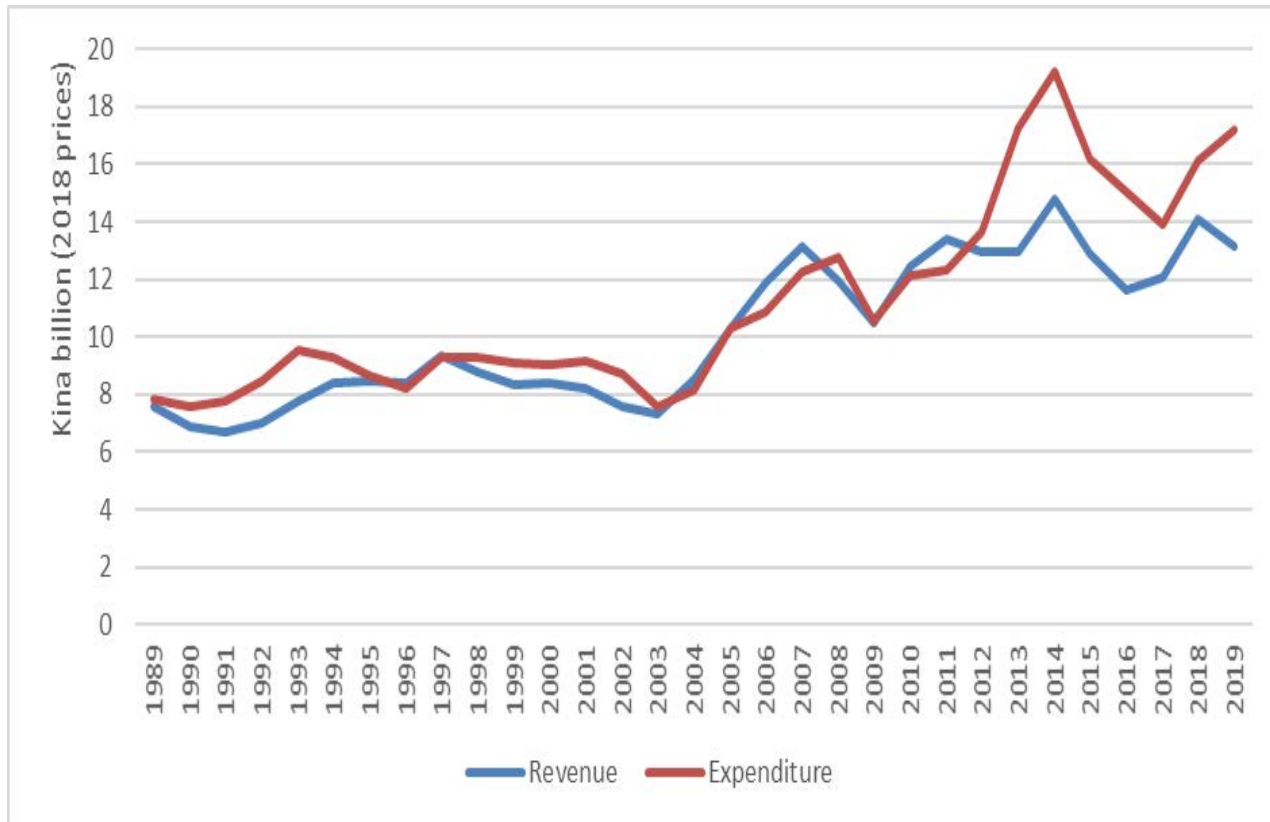
Index of formal sector growth



Formal employment (excluding public service) in 2020 March is 13% lower than 2013 June level.

Public sector employment has grown in the same period.

Deficit problem



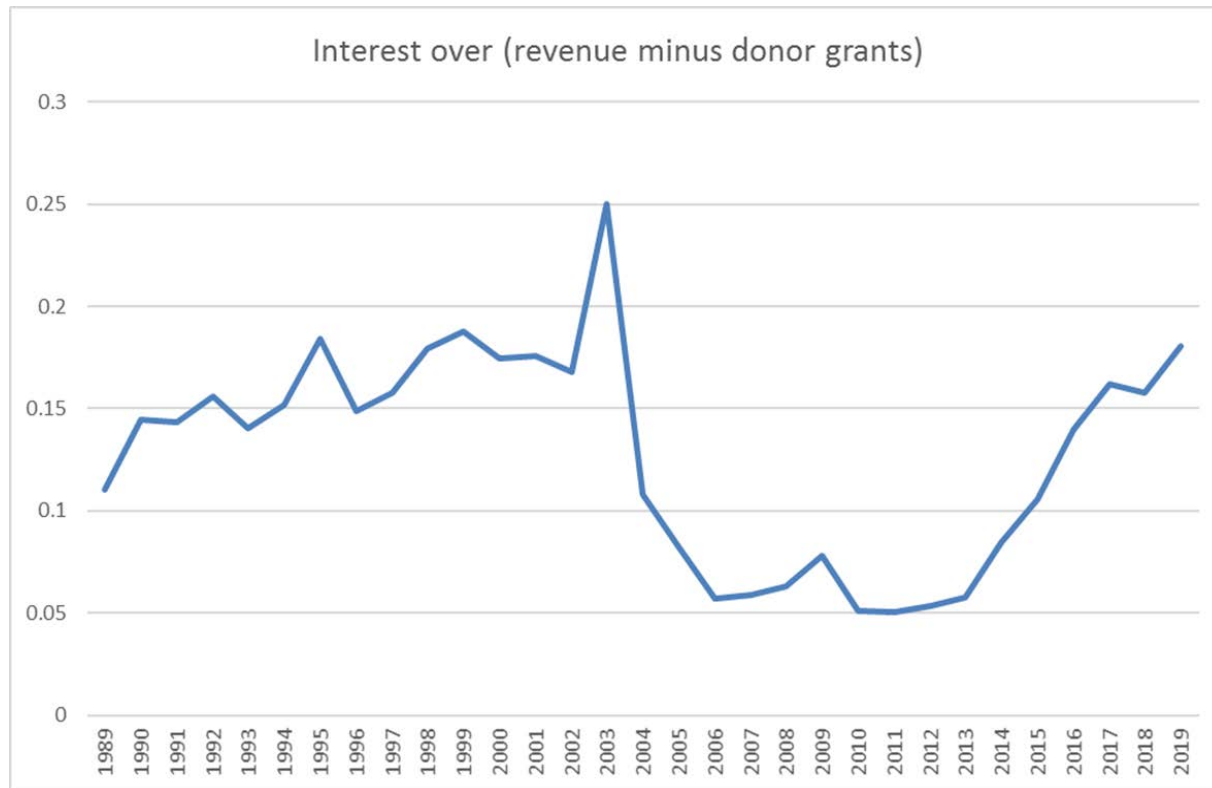
Expenditure 40% higher than 2007; revenue unchanged.

Revenue fell in 2019 and has been flat since about 2010.

Deficit in 2020 budget of K4.631 billion widened by another K2.2 billion.

The ratio of salaries to revenue went up from 28% in 2013 to 42% in 2019.

Interest costs increasing.



Domestic debt large contributor to interest costs, comprising 12.5% of expenditure under 2020 budget.

Total debt was estimated at K37.2 billion (or 40% of GDP). Of which is 13% is external and low cost.

Additional K2 billion of Treasury bonds this year at 12.5% interest and 10-year maturity.

IMF loan of US \$363 million interest free also this year.

Economic impact

Commodity prices hit to the budget.

Tourism and remittances unimportant

Delays in infrastructure projects.

Internal lockdowns a negative, but internal freight subsidies positive.

2020 GDP growth estimate: -1.5% (down from 2%).

Revenue hit estimated at K2.2 billion

Huge cash flow problems

K5.7 billion stimulus

K1.5 billion from external funders

K2.5 domestic bonds

K0.5 billion early superannuation withdrawals

K0.6 billion loan moratorium

K0.6 billion new spending

Plus tax deferrals, relaxed monetary policy

Comments

How much of the financing is additional is unclear: 2020 budget already had a K4.6 billion net borrowing requirement.

- That will likely be achieved

Early access to superannuation deferred to August.

K600 million of extra spending is K67 pc or \$28 per person

- Very low by Pacific standards and explained by poor starting point in terms of fiscal position.

Porgera JV mining operation suspended, and Ok Tedi temporary closure.

Conclusion

Overall, the PNG economy is at best stagnant or going backwards

- And has been long before COVID-19 came along

COVID-19 makes existing trends worse

- But things have been getting worse since at least 2013
- And it also makes hard decisions harder

Depreciation is the only tool the government has to stimulate the economy in the short-term, and it refuses to use it.

Reform is undermined by

- Vote of no confidence in 2020
- Emphasis on stability and hope
- The durability of leading civil servants, and consequential administrative dysfunction.
- A gradual rather than sudden deterioration.
- The availability of external support