ANZ's stubborn optimism on the PNG economy

By Stephen Howes and Andrew Anton Mako
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In 2013, the ANZ Bank produced a big report on PNG's economic future in which it expounded on its "considerable optimism about the country's future". The report outlined three scenarios for the resources sector: low, central and high. The central scenario had PNG resource exports in 2020 at US$18.7 billion. In fact, in 2020, resource exports were US$7.4 billion, almost one-third of the central case and firmly in the low case scenario.

ANZ went quiet for a while, perhaps because it was deciding its own future in PNG: eventually it decided to stay, but to pull out of PNG's retail market and only to service corporate clients. But in 2018 it was back in optimistic mode, saying that PNG was "on the cusp of another resource boom"; not just an ordinary boom, but "a 'super cycle' in resources investment, particularly in gas, gold and copper projects".

In 2019, in a report that can be accessed through ANZ's Research Portal (which requires registration), ANZ doubled down on its optimism, saying that that year would "mark a turning point for PNG's economy". The period of "soft growth" was now over. The economy would "rebound in 2019 and power into the 2020s", as it rode the super cycle. It didn't.

COVID-19 subdued ANZ's enthusiasm, but, by last year, the bank was back at it. In May 2022, in a report titled *Papua New Guinea: Green shoots* (also accessible through the ANZ Research Portal), it said that the economy would rebound in 2023, with "strong growth continuing to early next decade", and that "2028-2032 [is] expected to deliver the highest GDP lift in PNG's history". In November, in a further report subtitled *Levelling up* (same portal), it projected "long and strong" growth, and a "phenomenal" boom, a "major business-investment boom cycle to come", with "a sustained demand-driven surge in wages growth", this time from 2024.

What strikes one about this persistent bullishness is the lack of any self-reflection. There is no mention, let alone any analysis, of what went wrong with the 2013 projections, and why resource exports haven't come anywhere near ANZ's central case. There is no appreciation of why it is so, and increasingly, difficult to get resource projects off the ground in PNG. Resolving landowner and environmental issues is getting more not less difficult, and the sentiment that PNG is not getting a fair deal from its resource projects only adds to the delay. Even highly unlikely projects like Solwara 1 (now bankrupt) and Frieda (highly controversial) have been included in the bank's positive write-ups of the country's resource-rich future.

As a resource-dependent boom-bust economy, PNG will eventually move from its current bust to the next boom, so eventually ANZ will be proved right. However, its credibility is already damaged. The bust has been underway for almost a decade now. A forecaster who keeps predicting better weather ahead will be right some of the time, but will not be trusted.

It is not only its own credibility that ANZ is damaging. Its unfounded bullishness is also bad for the PNG economy. It sends the signal to policymakers that their biggest challenge is not to change current policy settings but to accelerate the next round of resource projects. Why worry with ending foreign exchange rationing if much better days are just around the corner? On the other hand, if, as is much more likely, resource projects are in fact going to be few and far between, then the case for making difficult decisions to promote the non-resource sector is that much stronger.

In 2013, then PNG Treasurer Don Polye was defending the large deficit the government was then running – at a time when it should have been saving funds at the top of the boom. There was no need to be worried, [Polye told his audience](), at a budget forum that the ANU helped organise: "Many learned people … have given us projections that I find very encouraging. We recently had a visit to PNG by the CEO of the ANZ bank, Mike Smith … and he said that PNG could be the Tiger of the Pacific."

The next year PNG's boom ended, and it has been stuck in a bust since. The lesson that even successful resource projects may not do much to expand economic activity (because of [poor government decisions]() or because [profits are taken offshore]()) needs to be learnt.

ANZ's constant focus on the upside of resource projects only serves to perpetuate the illusion that the resources sector holds the key to achieving sustained and high economic growth and improvement in the lives of the people of PNG. This sends a wrong signal, not only to the rural population who may then neglect opportunities in agriculture, but also to the government and its policymakers, who may only offer lip service to structural policy and institutional reforms as they await the cash bonanza.

Even though PNG's resources sector will play a prominent role in PNG's socioeconomic development for the foreseeable future, the country's long-term future does not lie with and should not be tied to the resources sector. When the country's mineral and petroleum resources are exhausted, PNG will fall back on the non-resources sector, its human capital and its institutions, for socioeconomic growth and development. They need more attention.

The ANZ Bank would enhance its own credibility, and play a more useful role as a commentator, if it toned down its rosy projections, and gave greater emphasis to growth-enhancing policy reforms and less to new resource projects.

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