
PNG's Prime Minister James Marape receiving a COVID-19 vaccine in April 2021

Papua New Guinea in 2022

By Stephen Howes
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National elections will be held in PNG in the middle of this year. Elections are held every five years, and are very popular events. Though voting is voluntary, voter turnout is just below that of Australia, where voting is compulsory. An extraordinary number of political candidates compete for office. The average number of candidates per seat has grown from eight in 1977 to 30 in 2017, surely a global record.

111 men but no women were elected in the 2017 elections. It is possible (though increasingly unlikely) that special measures will be put in place in the next few months so that that result is not repeated in 2022. If not, the only remaining hope is that at least a few of the growing number of women who stand at elections are successful at the hustings.

It is impossible to predict election results, as there are no opinion polls, and party structures are very fluid. But James Marape, Prime Minister since 2019 when he ousted Peter O'Neill in a mid-term vote of no confidence, is the favourite, simply because he is the incumbent.

In each of the last three elections, the incumbent Prime Minister has kept his job. This is because PNG law was amended at the turn of the century to require that the party with the most members of parliament (MPs) elected be given the first chance to form a coalition of government. MPs are normally attracted to the party of the prime minister. Currently, Marape's party, PANGU, has 34 MPs, almost three times the size of the next party. There is a high turnover of MPs, but even if there is a swing against it, PANGU will likely emerge from the elections as the biggest party, giving Marape first go at the top job.

Whoever wins the elections will have to deal with two key issues. One is COVID-19.

Vaccination rates increased in PNG in October and November as COVID-19 took off, but with very high levels of vaccine hesitancy, by the latest estimate only 2.5% of the population is fully vaccinated. PNG will have to navigate 2022 without significant vaccine coverage.

COVID-19 hit PNG hard in the second half of 2021, and it must be highly likely that there will be another large wave associated with the introduction of the Omicron variant and perhaps election campaigning.

The other issue facing the country is the desperate need to raise economic growth and create more jobs. COVID-19 is itself an economic problem, and the low level of vaccination in PNG is likely to hinder labour mobility, trade and investment. There might also be further internal lockdowns.

While COVID-19 has been bad for growth, it was already sluggish before the onset of the pandemic. In the absence of data on gross national income and given the enclave nature of the extractive (resource) sector, non-resource gross domestic product is the best measure of national economic activity. From 2014 to 2019, this grew in real terms by only 0.9 per cent a year on average. The budget projects this to accelerate to an annual average of 4.4 per cent from 2021 to 2027. How is unclear.

Perhaps one of the various resource projects currently being negotiated will be finalised within this period and its construction will give the economy some much-needed stimulus. But with all the uncertainty around the projects currently under discussion, the government wisely isn't counting on this.

Growth in government expenditure this year, including much needed health expenditure increases, will help economic growth, but PNG is running record deficits to support expenditure in the face of COVID-19. Rapid expenditure growth cannot be sustained. While the latest budget allows for a 3.5 per cent increase in expenditure after inflation in 2022, it doesn't allow for any subsequent expenditure growth after that until 2027.

The biggest drag on growth since 2014 has been foreign exchange shortages, which remain a problem to this day. In annual surveys, PNG's business leaders have listed foreign exchange as one of their top four worries every year between 2014 and 2021, and often as their leading concern.

PNG's central bank has been content to ration foreign exchange to protect the exchange rate and its foreign exchange reserves. The government recently amended the Central Banking Act to require the Bank of Papua New Guinea to take account of the growth as well as the inflationary consequences of its policies. Given the disastrous impact of foreign exchange rationing on growth in recent years, it is hoped that this encourages the Bank of Papua New Guinea to change tack and eliminate foreign exchange rationing.

Ultimately, whoever wins the 2022 election is going to find themselves in the invidious position of having to exercise fiscal restraint while trying to accelerate economic growth. It won't be easy.

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Disclosure

Last year the author served on the PNG Independent Advisory Group (IAG) which made recommendations in relation to the Central Banking Act mentioned above. For details, see the IAG website.

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