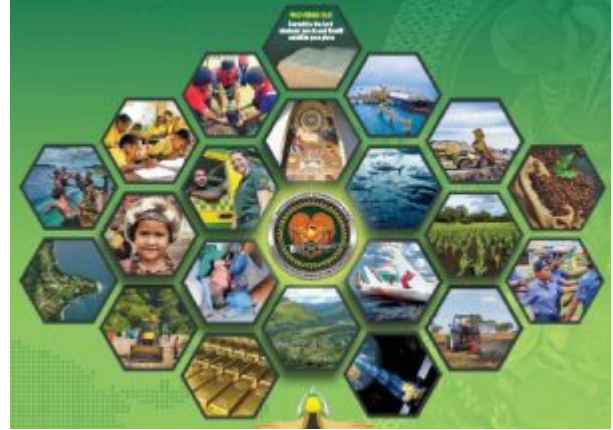


PNG's development plan implies falling living standards

by Andrew Anton Mako and Stephen Howes

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Papua New Guinea's Prime Minister **James Marape** launched the country's current Medium Term Development Plan (MTDP) in July 2023. It is the fourth in the most recent series of five-year plans, though such plans have been a part of PNG's governance since independence. This one is Marape's first national development plan since coming to power in 2019 and covers the five years up to the next general election in 2027.

The 330-page **MTDP IV** is divided into three parts: policy directions; sectoral programs and interventions; and provincial and district information. The report is lavishly illustrated and incredibly detailed (though not always correct, claiming for example on p. 213 that only one language is spoken in Enga, whereas in fact there are three: Enga, Ipili and Hewa). It has an impressive range of targets and interventions, and a strong and welcome focus on agriculture.

The big problem though is that the plan's economic analysis is far from convincing.

One odd feature is the target to increase exports but decrease imports. The figures are not always consistent but at one point the plan says the target is "to more than double the value of exports to K65.7 billion, and reduce the value of imports by some 25% to K9.5 billion by 2027" (p. 118).

This is a very mercantilist view: exports good, imports bad. In fact, the only value of exports to a country is that they enable the purchase of imports. Increasing exports while decreasing imports means an ever-growing current account surplus, and makes no sense at all. If the 2027 GDP target of K164 billion is achieved, then the current account balance in that year would be about one-third of GDP, which is astronomically high. Import substitution is an important goal but should result in the freeing up of foreign exchange to purchase other much-needed imports, not a total reduction in the import bill. We're not aware of any country that has developed by reducing its imports.

Equally worrying is the treatment of GDP. The overarching goals of MTDP IV,

according to the Prime Minister's foreword, are "to grow the economy to K200 billion, double both internal and external revenue, and create an additional one million jobs" and to "achieve our dream to be the 'Richest Black Christian Nation', and a 'middle income' country by 2030".

Such goals are either unachievable or confusing. **Analysis has shown** that there is no way PNG can get close to becoming the richest black Christian nation by 2030. And the country is already classified as middle income. (Perhaps the Prime Minister means upper-middle income, but more on that later.)

Rather than targeting GDP, the focus should be **on the non-resource sector** of the economy which supports the bulk of the country's population for jobs, incomes and livelihood.

It is also critical to adjust for inflation when measuring the growth of any economy. In fact, no real (that is, inflation-adjusted) growth target can be found in the plan, whether for GDP or non-resource GDP. Actually, there is no discussion of inflation at all. Without knowing what assumptions are being made about inflation, it is impossible to assess the meaning or ambition of a nominal GDP target. If prices double, nominal GDP doubles, but no one is better off.

The target presented for nominal GDP (K164 billion in 2027) implies an average GDP growth rate of 6.8% from 2021 to 2027. Projected annual population growth is an incredibly high 4.8% (p.185) so that is only 2% nominal GDP growth per person. Inflation in PNG will certainly be higher than 2% over the next five years. It therefore looks like the plan is projecting *negative* real growth in GDP per capita.

Other data provided for nominal GDP per capita (see the notes at the end of this blog) suggest a target average nominal growth of 4.3%, but again that is roughly what one would expect inflation to be. (And these per-capita figures imply population growth of 2.5%, which is sensible but only about half of the 4.8% presented as the plan's own projected annual population growth.)

Yet another target of MTDP IV is given for GDP per capita in US dollars (USD3,000 in 2027), again not adjusting for inflation. This target implies a nominal annual per-capita growth rate in US dollars of just 2.0% from 2021 levels, which again is likely below US inflation over the next five years. Per-capita income of USD3,000 in 2027 is also inconsistent with the plan's aspiration for PNG to be an upper-middle income country by 2030 (p. 6), since the threshold to graduate from lower-middle to upper-middle income status is just above USD4,000.

GDP, population and inflation are all difficult to estimate accurately, but the plan needed to be much clearer about what its estimates (or assumptions) for these

variables actually are. If, adjusted for inflation, economic growth is lagging population growth, then average living standards are falling, and prosperity is reducing, not increasing. The plan's pessimistic economic projections are inconsistent with its title, *National prosperity through growing the economy*. They are particularly hard to understand given that it assumes that three large resource projects come on stream during the next five years (Papua LNG, P'nyang LNG and Wafi-Golpu gold/copper).

A critical aspect of national planning is strong economic analysis. Unfortunately, the economics of MTDP IV is extremely weak indeed.

Data notes regarding GDP growth rates in MTDP IV:

- *Nominal GDP is projected to grow from K110 million in 2021 (Executive Summary) to K164 million in 2027 (p. 2), which corresponds to an average nominal GDP growth rate of 6.8%.*
- *GDP per capita is projected to grow from K9,337 in 2021 (Executive Summary) to K12,000 in 2027 (p. 2) which corresponds to an average nominal GDP per capita growth rate of 4.3%.*
- *GDP per capita in US dollars is projected to be USD3,000 in 2027 (page 2). A GDP per capita of K9,337 in 2021 (as per the above bullet point) corresponds to USD2,661 given the PGK/USD 2021 exchange rate of 0.285 ([PNG Economic Database](#)), implying annual average GDP per capita growth in US dollars of 2.0%.*

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Link: <https://devpolicy.org/pngs-development-plan-implies-falling-living-standards-20240325/>