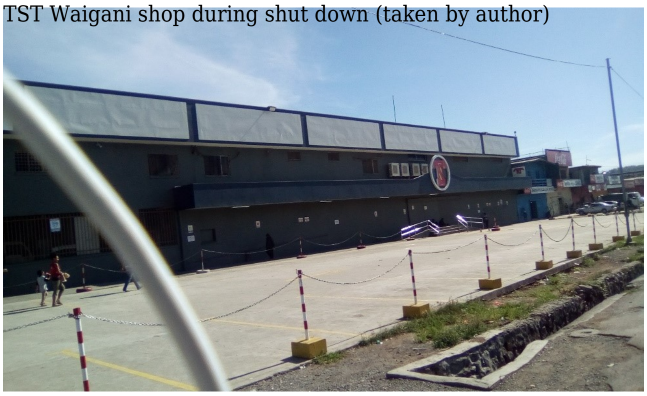
TST Waigani shop during shut down (taken by author)



PNG's economic stimulus: an assessment

By Jotam Sinopane
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Besides its direct effect on people's lives, COVID-19 will significantly impact businesses and the Papua New Guinea economy. Business Advantage PNG has reported on job losses, trading restrictions and the eventual closure of some businesses. Publicly listed companies have announced [here, here] that COVID-19 will adversely impact their revenue and profitability targets. Airlines, logistics, tourism, hospitality, and service industries are the main losers with negative spillovers seen in all other economic sectors. The PNG Treasurer Ian Ling-Stuckey has stated that 'preliminary economic modelling indicates that PNG's economic growth will likely fall below zero this year.'

On 23 March 2020, the Government of PNG (GoPNG) imposed a 14-day lockdown to control and minimise the spread of COVID-19, with the first case in PNG detected on 20 March. A State of Emergency (SOE) was declared for 60 days after the lapse of the 14-day lockdown on 5 April, following an emergency parliament session held on 2 April. Parliament also endorsed emergency legislation to empower relevant officials to implement the SOE agenda. On 16 April, there were five new positive COVID-19 cases, bringing total positive cases in PNG to seven with no deaths recorded so far.

This post examines GoPNG's economic stimulus package of PGK5.6bn, or approximately AU$2.6bn.[1]

Economic stimulus package

Against the backdrop of a global economic recession, the decline in commodity prices and domestic fiscal challenges, GoPNG has successfully liaised with Bank of PNG (BPNG), commercial banks, and foreign development partners to put together a large stimulus package, including:

- PGK2.5bn in domestic debt funding through a COVID-19 Treasury bond.
- PGK1.5bn support from development partners including the IMF, World Bank and Asian Development Bank. Additional funding is expected to be sought from trusted

bilateral and multilateral partners.
- PGK600m in credit support to businesses and individuals from the commercial banks.
- PGK500m from planned superannuation savings, through the Authorised Superannuation Funds (ASF) in PNG.
- PGK500m allocated to health, security and economic sectors. Half of this amount is allocated to 'keeping jobs, rural households and MSME's and [to] enhance food security'.

BPNG has also announced various monetary measures, including a decrease in interest rates, moves on foreign exchange availability, and quantitative easing with the aim to stimulate the economy. The Internal Revenue Commission has announced concessional changes in administrative processes, without introducing any substantive policy changes.

Fiscal measures

A 13% or PGK2.0bn (AU$9m) reduction is anticipated in the 2020 projected revenue of PGK14.1bn (AU$6.5bn). Before GoPNG can provide any stimulus, it needs to fill this hole. The PGK2.5bn or AU$1.2bn bond that has been announced will likely be long-term, domestic debt. Raising this debt on the domestic market will be challenging as most institutional investors are above their sovereign exposure limits, and GoPNG will likely have to offer a higher interest rate to attract subscription from institutional investors.

In addition, PNG has sought for PGK1.5bn or AU$700m from multilateral development partners at more favourable terms. The World Bank approved US$20m on 14 April. There have been recent announcements of PGK1.7m, PGK4.2m, PGK970k from the Australia, USA, and Chinese governments respectively to fight COVID-19. Much more will be needed.

How the PGK500m in new spending will be allocated remains to be seen. GoPNG needs to find a balance to ensure existing health services are maintained, while improving PNG's preparedness for COVID-19. People with underlying medical conditions are vulnerable with or without COVID-19. Spending COVID-19 funds on the existing infrastructure in hot spots should be encouraged rather than building new infrastructure.

Monetary and financial measures

One of the measures announced by BPNG was the reduction in Cash Reserve Requirement (CRR) to 7% from 10% in April. This would make available PGK618.4m (AU$286.6m) to commercial banks for lending and liquidity purposes. BSP subsequently reduced its Indicative Lending Rate (ILR) from 10% to 9% effective on 1 April, resulting in changes in some of its loan products. Similarly, Kina Bank has reduced its overdraft interest rate by 2 percentage points to support cash flows and reduce interest on some of its loan products. ANZ PNG has announced a 0.5% reduction in variable interest rate products, followed suit by Westpac PNG with similar measures. Customers who have loans that have variable interest rates will realise some reduction in repayments, while those customer loans on fixed interest will remain the same.

The PGK600m (AU$278.1m) credit support is not new funding from GoPNG, but an estimate of how much the commercial banks will provide in support to borrowers through the decrease in interest rates on variable loan products, deferral of principal payments on commercial loans and individuals employed primarily in the affected economic sectors. Customers are expected to make principal and interest payments after three months, assuming the relief holiday is lifted.

The two PNG super funds have announced payments of 20% or a maximum of PGK10,000 (AU$4,635) of members contribution upon termination. This will allow newly unemployed members to get their benefits upfront. Compulsory employer and employee contributions will be deferred on a case-by-case basis as well.

Conclusion

The economic stimulus packages will provide some immediate relief, but is not enough and has no real benefits in the long run. The government will emerge with more debt. Unemployment benefits are from members' own retirement savings.

One additional measure to consider would be the creation of an SME Relief Fund to support struggling SMEs. This could be channelled through the commercial banks and National Development Bank which have existing relationships with SMEs, and have knowledge and expertise. The Fund should be used to subsidise a percentage of employment costs for struggling SMEs. Alternatively, and perhaps more transparently, tax obligations could be reduced, subject to an agreement that the SMEs maintain 80% of their workforce.

This proposal would require cutting other expenditures to be affordable, without additional borrowing. It would support struggling SMEs during this unprecedented time, while laying the groundwork for a recovery after COVID-19 passes.

[1] Conversion using PGK/AUD of 0.4635 being the Bank of PNG mid-rate as at 16 April 2020.

This post is part of the #COVID-19 and the Pacific series.

Note: an earlier version of this post had the incorrect levels of domestic debt funding and *support from development partners. These amounts have been corrected.*

About the author/s

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