

2019 PNG SURVEY

The
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Papua
New
Guinea



Australian
National
University

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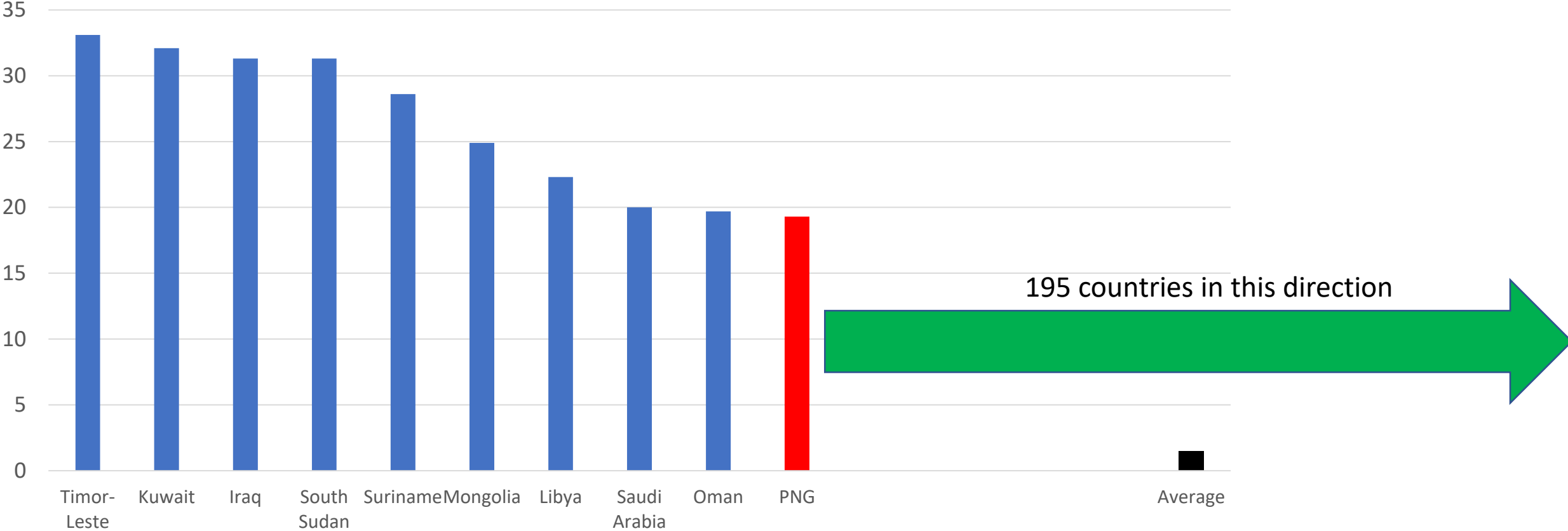


Dek Sum



PNG is the tenth most resource-intensive economy in the world

Resource rents as a % of GDP






PNG is the tenth most resource-intensive economy in the world

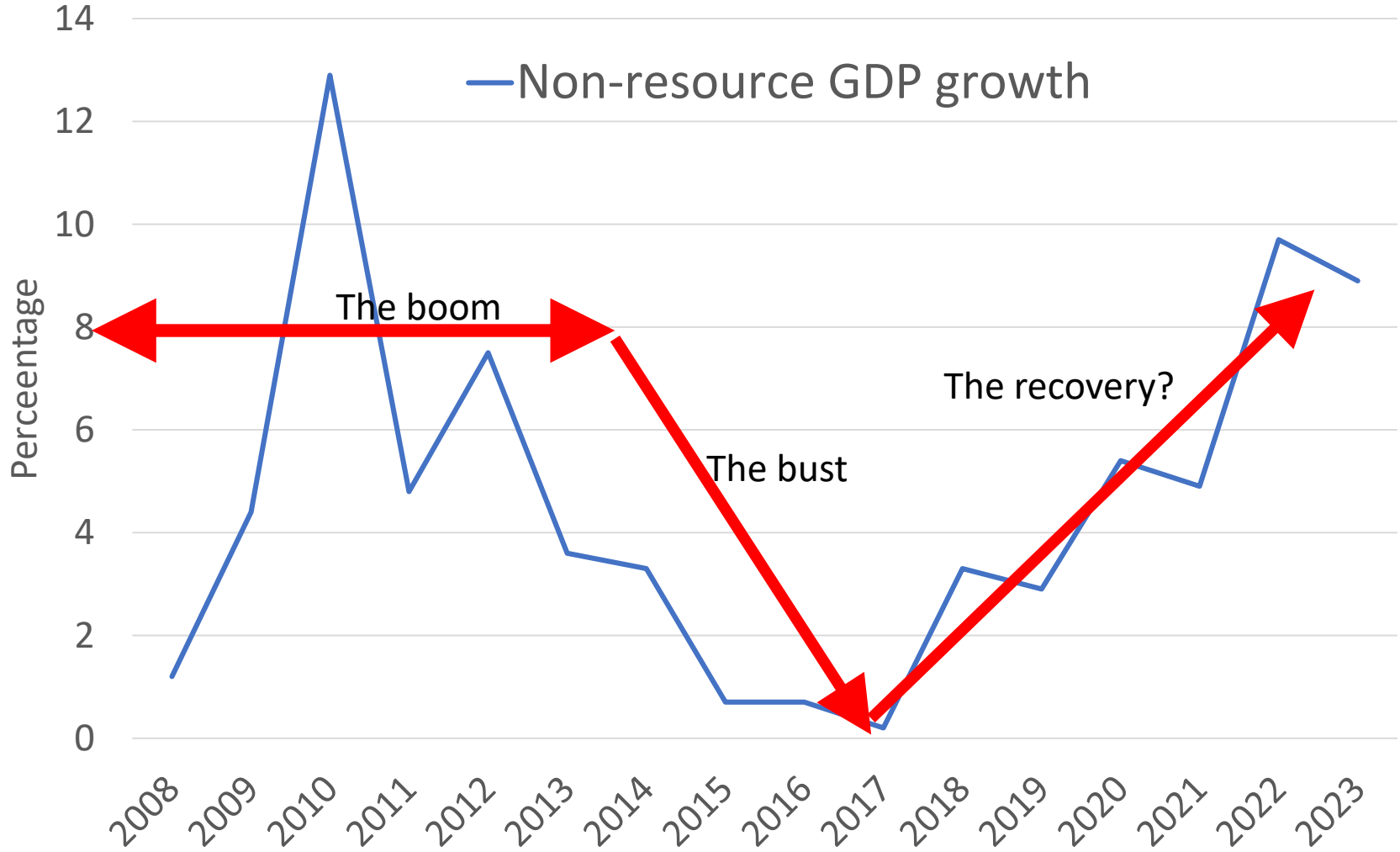
GDP is not a good measure of national economic activity for resource-intensive economies.

Therefore, don't use GDP to measure economic trends in PNG.

What should we use to analyse economic trends in PNG?

- Gross Domestic Product 
- Gross National Income 
- Non-resource GDP
("non-mining GDP") 

What is happening to non-resource GDP in PNG?



Is economic recovery underway?

- 2018 was a better year for the PNG economy
 - Despite the earthquake
 - More (non-resource) economic growth
 - More FX: Due to foreign borrowing; and more trade-related inflows
 - Strong revenue growth: 17% after inflation. 2nd highest in three decades.
 - Strong government spending growth: 16% after inflation. 3rd highest in three decades, and after three years of decline

What about the future?

- Brighter prospects with Papua LNG fiscal agreement signed
 - Our analysis shows terms more favourable to PNG government than PNG LNG agreement.
- Other promising developments
 - Coral Sea Cable
 - Highlands Highway rehabilitation
 - More revenue from resource projects

But... the recovery is faltering.

- 2018 was a better year, but 2019 shaping up to be a worse one:
 - FX down
 - Revenue growth weak
 - Expenditure growth weak – no government stimulus
- July 31 MYEFO: “The widening of the foreign exchange imbalance in recent months and the tightness in fiscal spending will also impact adversely on non-mining [non-resource] GDP growth in 2019.”

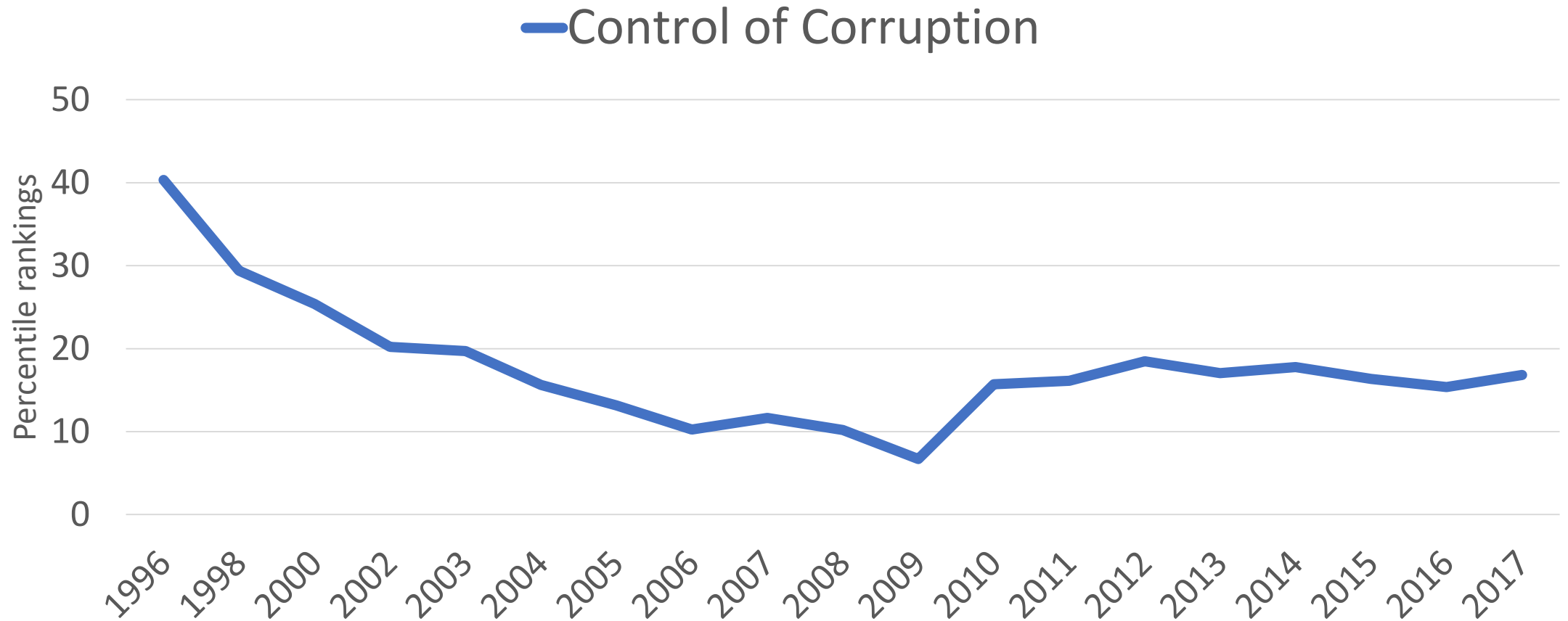
Why has the recovery not been sustained?

- One-off rather than sustained solutions tried in 2018
 - Large foreign borrowing: Close to US\$1 billion
 - Big increase in expenditure: 16%
- These can work well one year, but won't have a lasting impact.
- Once they wear off, the underlying problems reassert themselves.
- For sustained recovery, government needs to tackle the underlying constraints.

What does the government need to do?

1. Improve governance
2. Correct the overvalued exchange rate
3. Implement a new fiscal plan
4. Improve the investment climate for both foreign and national investors.
5. Prepare for the next resource project/boom

1. Government's emphasis on governance supported by international data

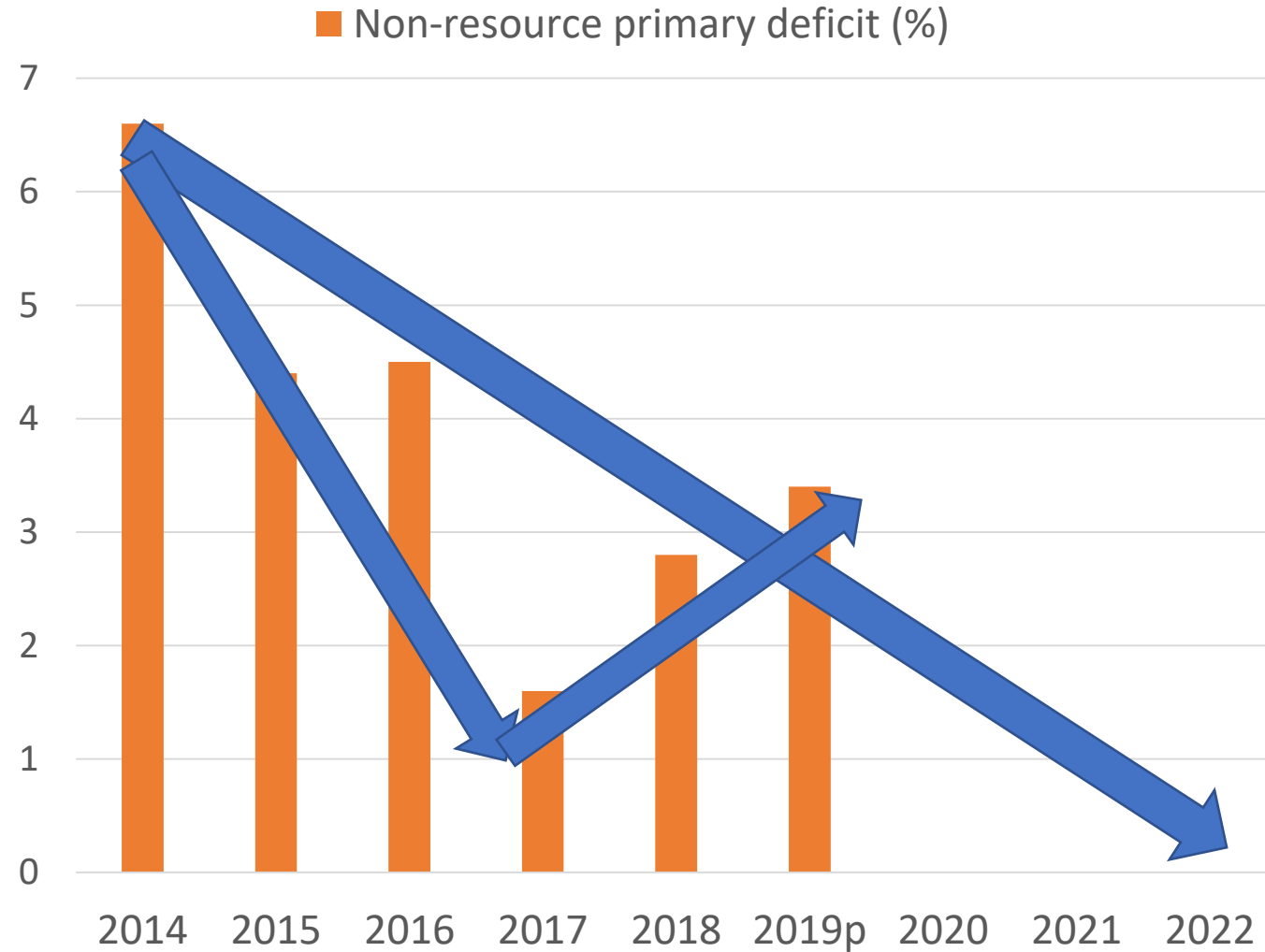


2. The strong Kina is hurting the economy

Real effective exchange rates (2002=100)

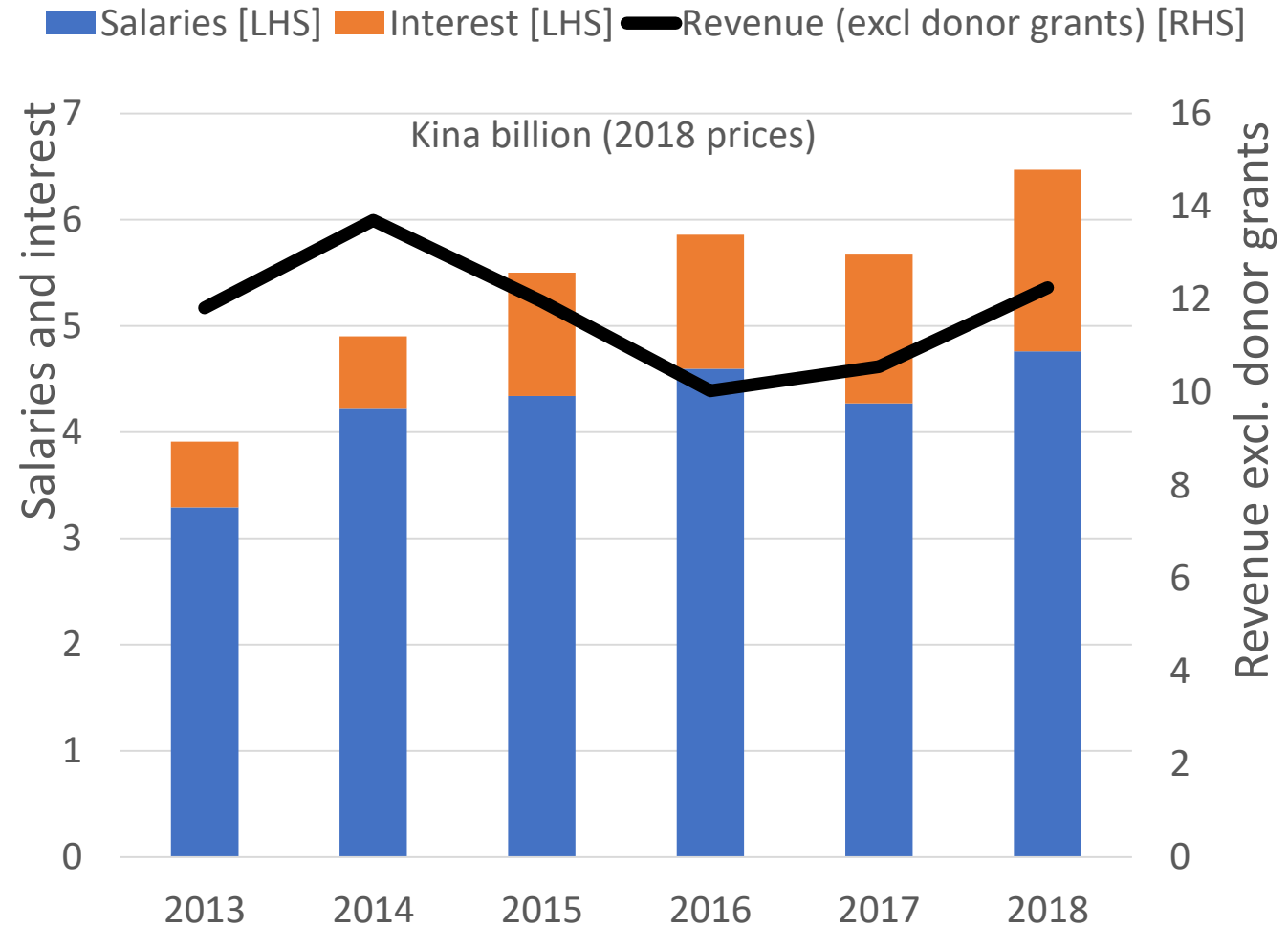


3. Fiscal adjustment off track



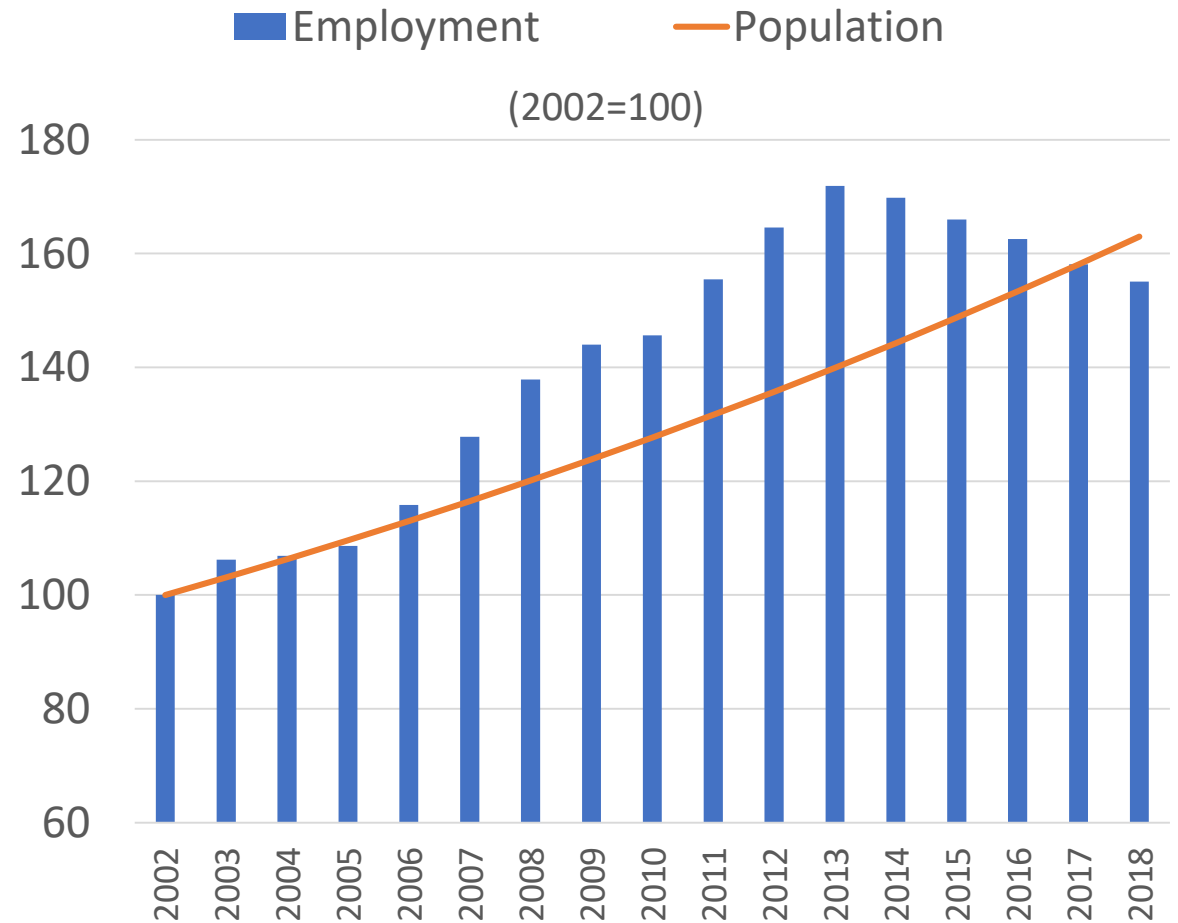
Underlying fiscal issues

- Rising salary bill
- Rising interest burden
- Low revenue growth
- Arrears
- Guarantees and SOE debt



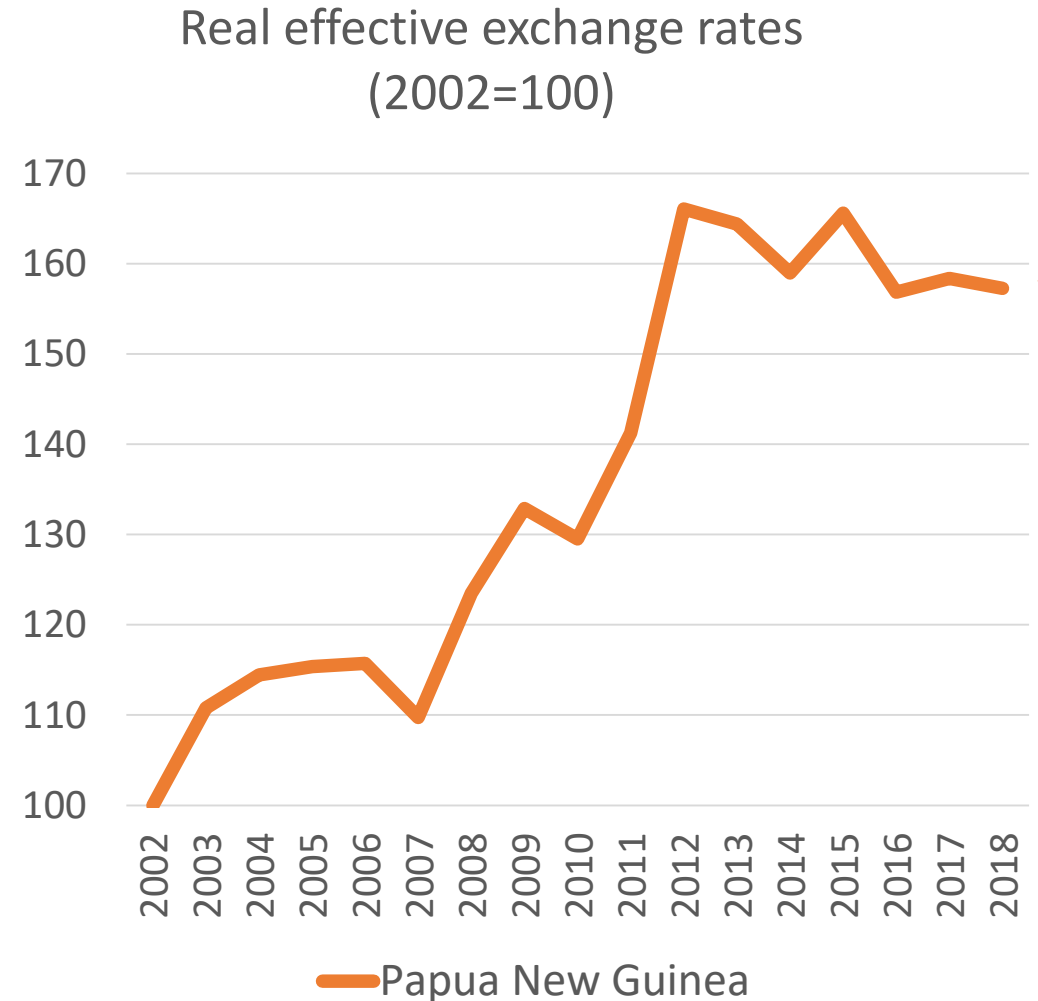
4. More investment is needed to counter growing joblessness

- Formal sector jobs have fallen every year for the past five.
- Why?
 - Measurement problems
 - Economy becoming less formal?
 - End of economic boom
 - Lack of investor confidence



5. Is PNG prepared for the next resource project?

- SWF was designed for the last resource boom. Needs to be in place in time for the next one.
 - But probably not as is. Need to learn the lessons of experience.
- Also revisit exchange rate policy. Can't make sense to allow the exchange rate to float up during the boom, but not to allow it to float down afterwards.



Conclusion

- There were signs of economic recovery last year, but not sustained into this year.
- Urgent need for action given the faltering recovery, fiscal difficulties, and declining jobs.
- Our “recipe for recovery”
 1. Improve governance
 2. Devalue the exchange rate
 3. Reset fiscal policy
 4. Improve the investment climate for both foreign and national investors.
 5. Prepare for the next resource projects/boom

Reform needs a narrative as well as a plan

- A new government is a new opportunity
- PM and Treasurer have already talked about some of the difficulties the economy and budget are facing.
- The next step is to outline the difficult solutions needed.
- The government can't do it alone: difficult times require difficult decisions and you need to take the people along with you.
- The government also needs expertise and financing support: time for an IMF package?

Tenkyu tru!

Paper, presentation and blog available at

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