

# PAPUA NEW GUINEA

Table 1	2021
Population, million	9.1
GDP, current US\$ billion	25.3
GDP per capita, current US\$	2773.8
National Poverty Rate <sup>a</sup>	39.9
Gini index <sup>a</sup>	41.9
School enrollment, primary (% gross) <sup>b</sup>	116.0
Life expectancy at birth, years <sup>b</sup>	64.5
Total GHG Emissions (mtCO2e)	65.7

Source: WDI, Macro Poverty Outlook, and official data.  
a/ Most recent value (2009/10). National values  
b/ Most recent WDI value (2019).

*The economy rebounded modestly in 2021, supported by agriculture in the context of limited COVID-19 mobility restrictions. Rising fiscal deficit and the economic contraction placed the country at high risk of debt distress, requiring a fiscal consolidation. After two years of contraction, the extractive sector is projected to be the main driver of GDP growth in 2022. With low vaccination rates, limited fiscal space, and general elections in mid-2022, uncertainty remains high.*

## Key conditions and challenges

The COVID-19 crisis has come on top of PNG's structural economic challenges, notably the boom-and-bust cycles driven by swings in natural resource sector exports. These cycles have been exacerbated by sub-optimal fiscal and public expenditure management as expenditure goes up during booms, followed by spending cuts when the boom ends. Pandemic-related global and domestic travel restrictions have weakened external and domestic demand. In 2020, this has led to an economic contraction, a sizable fiscal deficit, and higher unemployment, and these outcomes were only partially reversed in 2021. PNG has a highly dispersed and fragmented population, low level of urbanization, significant gender disparities, high exposure to natural disasters, high degree of resource dependence, and inter-communal violence in some regions. Weak governance severely constrains the ability to effectively manage this challenging context. Fragility-related risks are exacerbated by the socio-economic impact of exogenous shocks, such as earthquakes and COVID-19.

Socio-economic development is lagging for large sections of the population in PNG. The last available nationally representative household survey, from 2010, suggested that about 38 percent of the population was living below the US\$1.90 per day (2011 PPP terms) poverty line. According to phone

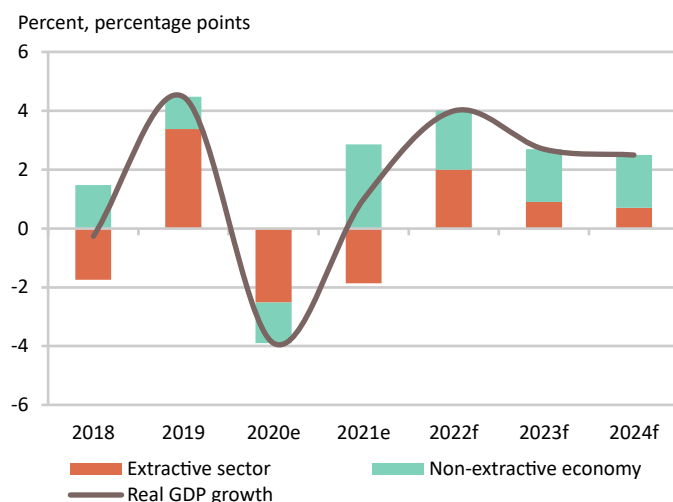
surveys conducted by the World Bank and UNICEF in mid-2021, more than half of households reported relying on subsistence agriculture as their main source of employment. More than two-thirds of households reported at least one episode of food insecurity in the previous 30 days, while nearly 40 percent of households reported insufficient access to water for drinking and handwashing.

## Recent developments

On the back of a strong global economic recovery, PNG reversed its downward economic growth trajectory in 2021. The economy contracted by 3.5 percent in 2020 before returning to positive growth of 1 percent in 2021. The impact of COVID-19 on economic output has been smaller than in many other EAP economies. The reasons for this include: low tourism exposure, good performance of the agriculture sector, a time lag in the spread of COVID-19 within the country, fiscal stimulus, and the recovery of commodity prices. However, growth has lagged global and regional averages. Economic performance in 2021 was constrained by falling gold and liquefied natural gas (LNG) production that resulted in a decline in extractive sector output for a second consecutive year.

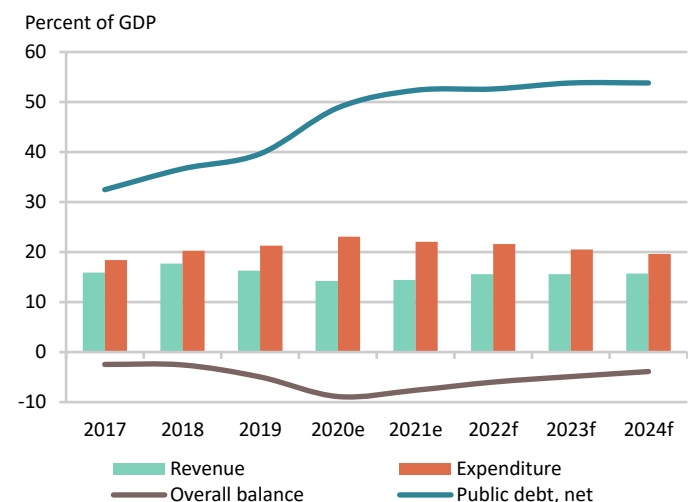
Despite reversing the trajectory of the widening fiscal deficit, it remained large at over 7 percent GDP in 2021. Public debt exceeded 50 percent of GDP, and the country is now classified at high risk of debt distress, according to the World Bank-IMF

**FIGURE 1 Papua New Guinea / Real GDP growth and contributions to real GDP growth**



Source: World Bank staff estimates and forecast.

**FIGURE 2 Papua New Guinea / Key fiscal and debt indicators**



Source: World Bank staff estimates and forecast.

Debt Sustainability Analysis. Contingent on prudent fiscal policies to be implemented, debt remain sustainable. The Bank of PNG maintained the Kina Facility Rate at 3 percent. Despite an accommodative monetary policy, private sector lending remained flat due to subdued economic conditions. Parliament passed amendments to the Central Bank Act in December 2021 that expanded its mandate beyond maintaining price stability to also promoting employment and economic growth. The current account surplus remained substantial owing to depressed imports and high commodity prices. However, due to the large debt repayments of the extractive sector, shortages of foreign currency remain a key challenge.

The impact of COVID-19 on livelihoods of the poor and vulnerable households was severe, according to four rounds of a World Bank mobile phone survey conducted between June 2020 and December 2021. More than one-quarter of those working in January 2020 were estimated to have stopped working by December

2020. Employment and income levels in mid-2021 were largely unchanged compared to December 2020. Preliminary analysis from the December 2021 survey shows that most households continued using detrimental coping strategies such as selling assets or drawing down on savings. Overall, the survey results are consistent with a stall in economic recovery.

## Outlook

In 2022, PNG is navigating a fragile recovery. On the positive side, the extractive sector is projected to rebound, driven by the planned reopening of the Porgera gold mine. Extractive sector growth is projected to be the main driver of overall GDP growth in 2022 at 4.0 percent. High commodity prices will amplify this effect, supporting the external accounts and providing (potentially) higher dividends to the state-owned companies that hold shares in joint projects in the resource sector.

Meanwhile, uncertainty remains high. The Omicron variant of COVID-19 has been spreading fast in PNG, the least vaccinated country in the EAP region. Less than 6 percent of the adult population received at least one vaccine dose, with 4 percent fully vaccinated. There is little prospect of a rapid increase in vaccination rates, given high rates of vaccine hesitancy. Combined with the low capacity of the public health system, this poses a risk of higher casualties and a negative impact on domestic economic activity. Meanwhile, after the recent widening of fiscal deficits, the government is expected to implement a gradual fiscal consolidation. The fiscal space for a significant policy response in case of an economic shock is limited. The repercussions of the Russia-Ukraine war might imply short-term gains from higher commodity prices. However, the medium-term growth impact is likely to be negative due to higher global uncertainty and lower growth. Additionally, general elections in mid-2022 heighten political uncertainties.

**TABLE 2 Papua New Guinea / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2019	2020e	2021e	2022f	2023f	2024f
<b>Real GDP growth, at constant market prices</b>	4.5	-3.5	1.0	4.0	2.7	2.5
Extractive sector <sup>a</sup>	11.3	-8.4	-6.2	6.8	2.9	2.4
Non-extractive economy	1.4	-1.1	4.2	2.9	2.6	2.6
<b>Inflation (Consumer Price Index), period average</b>	3.7	4.9	5.1	7.2	5.1	4.9
<b>Current account balance (% GDP)</b>	22.1	19.5	20.5	21.9	21.5	20.8
Extractive sector <sup>a</sup>	26.1	21.3	21.0	22.8	22.9	22.4
Non-extractive economy	-4.0	-1.8	-0.5	-0.9	-1.4	-1.6
<b>Overall fiscal balance (% of GDP)</b>	5.0	-8.6	-7.6	-6.0	-4.9	-3.9
<b>Non-resource primary balance (% of non-extractive GDP)</b>	-6.1	-10.4	-8.8	-6.9	-5.2	-3.6
<b>Public debt, net (% of GDP)</b>	40.2	48.9	52.3	52.4	53.7	53.6

Sources: World Bank staff estimates and forecast.

e = estimate; f = forecast.

(a) The extractive sector comprises mining, quarrying, petroleum and gas production.