

# PAPUA NEW GUINEA

Table 1	2021
Population, million	9.1
GDP, current US\$ billion	26.3
GDP per capita, current US\$	2881.1
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>	64.7
Total GHG emissions (mtCO2e)	64.2

Source: WDI, Macro Poverty Outlook, and official data.  
a/ Most recent value (2009/10). National values.  
b/ Most recent WDI value (2020).

After a modest rebound in 2021, the economy is accelerating in 2022, as both extractive and non-extractive sectors are expected to grow. High commodity prices contribute to higher current account surplus and to additional fiscal revenue, but also to elevated inflation that affected poor and near-poor households. The government managed to reduce the fiscal deficit in 2021 and is set to continue fiscal consolidation in the near future.

## Key conditions and challenges

Whilst the economy has more than tripled in size since independence in 1975, real GDP per capita has increased by only 0.9 percent per year – a low growth rate in comparison to other lower middle-income resource exporters. Economic growth has been and continues to be subject to significant upward and downward swings, reflecting an acute vulnerability to international commodity price changes, and these swings tend to be magnified rather than dampened by the economic policies of successive governments. The inclusivity of recent growth performance has been limited by the relatively high capital intensity of the resource sector and the lower performance of the non-resource sector. The COVID-19 crisis has come on top of structural economic challenges. 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.

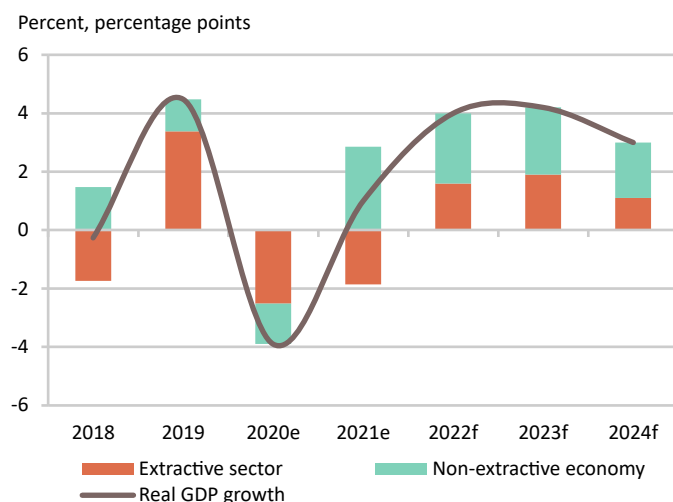
PNG has a highly dispersed and fragmented population, a low level of urbanization, significant gender disparities, high exposure to natural disasters, a high degree of resource dependence, and inter-communal violence in some regions. Weak governance severely constrains the ability to effectively manage 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. The last available nationally representative household survey, from 2010, suggested that about 39 percent of the population was living below the US\$2.15 per day (2017 PPP terms) poverty line and 74.2 percent of the population could be considered to be multidimensionally poor. According to phone surveys conducted by the World Bank in December 2021 and June 2022, less than five percent of households reported growth in household incomes and to make ends meet, most households had to use coping strategies such as spending from savings or receiving financial support from friends and family. More than a quarter of households experienced either moderate or severe food insecurity over the past twelve months.

## Recent developments

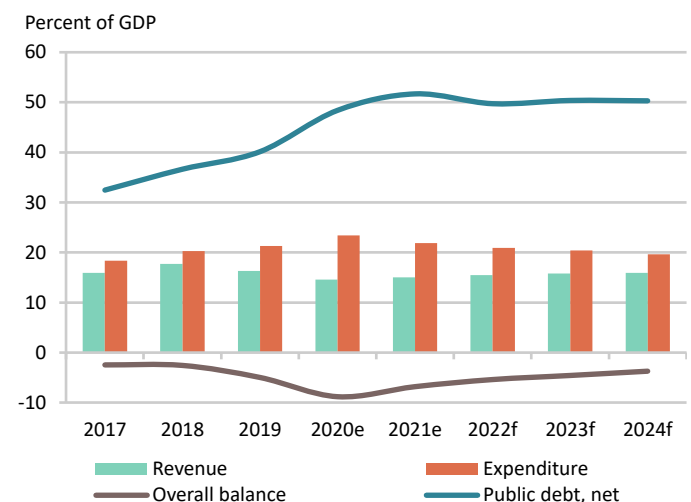
Following a sharp contraction in 2020, the economy is estimated to have recorded a 1 percent growth rate in 2021. Economic activity was mostly supported by a strong performance of the non-extractive sector. Agriculture was among the key contributors to economic recovery. More than half of respondents in the 2022 PNG 100 CEO Survey indicated that firm-level profitability exceeded their expectations in 2021. Positive dynamics in 2021 have translated into an optimistic growth outlook by business executives in 2022. Meanwhile, the extractive sector continued its weak performance in 2021 driven by disruptions to mining

**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.

operations. The ongoing shutdown in the Porgera gold mine was a key driver along with disruptions to production in the OK Tedi copper mine and Lihir and Simberi gold mines.

The fiscal deficit in 2021 at 6.8 percent of GDP was smaller than 2020 and smaller than budgeted but was still substantial by historical standards. Total revenue increased modestly in 2021, supported by a sharp increase in grants. Following a sharp growth in expenditure in 2020, the government was able to contain expenditure in 2021 amid prevailing elevated inflation. Public debt exceeded 50 percent of GDP in 2021. According to the latest World Bank–IMF DSA, the country remains at high risk of debt distress. Conditional on the implementation of the authorities' plans for further fiscal consolidation, PNG's external and overall debt is judged as sustainable. Available data for the first half of 2022 suggests that revenue collections are strongly outperforming forecasts built into the 2022 budget.

Headline inflation has been on the rise since 2021Q3 and reached 6.9 percent in 2022Q1, as the core inflation edged up to 5.4 percent. The Bank of PNG raised the policy rate by 25 basis points to 3.25 percent in July 2022 for

the first time since the pandemic started. Driven by a recovery of commodity prices, the current account surplus reversed the declining trend observed over the preceding five years.

The impact of COVID-19 on livelihoods of the poor and vulnerable households was severe, according to five rounds of a World Bank mobile phone survey conducted between June 2020 and June 2022. More than one-quarter of those working in January 2020 were estimated to have stopped working by December 2020, with no significant recovery across 2021. Preliminary analysis from the June 2022 survey shows growth in agricultural jobs compared to June 2021, but no recovery in household incomes.

## Outlook

The outlook for 2022 remains positive, underpinned by recovery in the extractive sector, elevated commodity prices, and gradual recovery in economic activity. Despite low vaccination rates, the pandemic-related policy stringency index has gone down, leading to more activity across the

country. Meanwhile, slower than expected economic growth could materialize mostly via lower demand for its exports and a sharp reduction in commodity prices. The lowest covid vaccination rates (3.8 percent in mid-August 2022) in the region also weigh on the growth outlook.

While the 2021 fiscal results were better than expected, achieving the government's ambitious fiscal targets over the medium term requires addressing current structural challenges. These include enhancing revenue mobilization and containing government sector wage bill. Following general elections, the new government is supported by a solid majority and has an 18-month grace period. This suggests good prospects of continued fiscal consolidation.

High food and energy prices prevailing in the international markets and inflationary pressures in the major trading partners imply that headline inflation will remain elevated in 2022 before settling down in 2023. Given the inflation in 2022, the real incomes of poor and near-poor households are likely to fall. The poverty impacts of the extractive sector growth would remain limited if associated employment growth does not include the poor.

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

(annual percent change unless indicated otherwise)

	2019	2020	2021	2022e	2023f	2024f
<b>Real GDP growth, at constant market prices</b>	4.5	-3.5	1.0	4.0	4.2	3.0
<b>Real GDP growth, at constant factor prices</b>	4.5	-3.5	1.0	4.0	4.2	3.0
Agriculture	2.3	3.1	4.4	3.8	3.9	3.3
Industry	7.5	-8.4	-6.2	6.1	5.4	2.9
Services	2.5	-1.2	6.1	2.4	3.3	3.0
<b>Inflation (Consumer Price Index)</b>	3.7	4.9	5.1	7.3	5.3	4.9
<b>Current Account Balance (% of GDP)</b>	22.1	19.2	22.0	23.7	21.9	20.9
<b>Net Foreign Direct Investment Inflow (% of GDP)</b>	-2.3	-3.5	-1.4	-1.2	-1.1	-1.2
<b>Fiscal Balance (% of GDP)</b>	-5.0	-8.8	-6.8	-5.4	-4.6	-3.7
<b>Debt (% of GDP)</b>	40.2	48.4	52.3	50.3	50.8	50.6
<b>Primary Balance (% of GDP)</b>	-2.4	-6.2	-4.4	-3.4	-2.6	-1.8
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	-0.2	0.5	0.6	0.6	0.5	0.5
<b>Energy related GHG emissions (% of total)</b>	11.9	11.9	11.8	11.6	11.5	11.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.