# Covid-19 Shock To Exacerbate Fiscal Pressures In PNG

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**Key View:**

- The outbreak of Covid-19 in Papua New Guinea represents a key threat to growth and stability, given the country's limited capacity to manage the health crisis.
- We at Fitch Solutions expect GDP growth to come in at close to zero in 2020 due primarily to a slump in commodity exports, and note further downside risks linked to the spread of Covid-19 in the country.
- The government has limited fiscal space to stimulate an economic recovery given persistent budget deficits and rising public debt, and will require increased support from international donors to cover some extraordinary spending.

**We at Fitch Solutions have revised down our growth forecast for Papua New Guinea (PNG) in 2020 from 2.4% to -0.2% amid a slump in exports and drastic efforts to contain a local outbreak of Covid-19**. While it has only reported seven confirmed cases so far, the threat of Covid-19 is particularly acute in PNG, which has around 500 doctors (for a population over 8mn), critical shortages of medical equipment and existing problems with illnesses such as tuberculosis and malaria. A state of emergency was called on March 23 after the first confirmed case, and extended for a further two months at the start of April, blocking foreign arrivals and restricting mobility across the country. On April 16, the government confirmed five new cases of Covid-19, including the first in the capital Port Morseby, prompting further restrictions on social gatherings, public transport and movement between provinces.

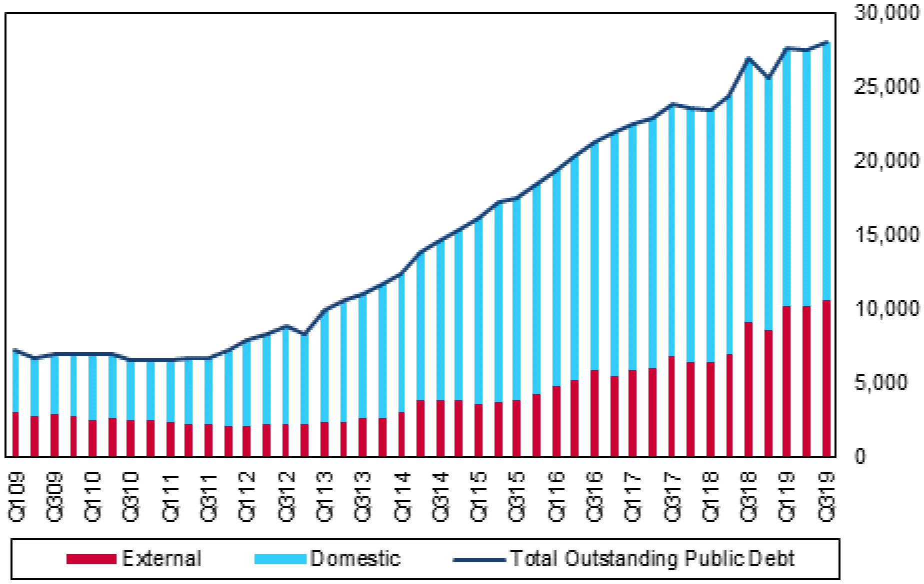
Despite these measures, the risks of the disease spreading remains elevated amid concerns over how well restrictions can be enforced. For example, local media outlets continue to report ongoing trading activity and daily crossings at the PNG-Indonesia border, which has been closed since late-January. Many rural areas are also poorly connected, meaning limited access to government communications and information about the outbreak. With this in mind, **we expect disruptive measures are likely to be extended into H220, further stifling consumption and investment activity and representing a downside risk to our forecast for a recovery to 3.0% growth in 2021.**

As we have previously outlined, **the biggest short-term economic impact of the Covid-19 pandemic will be a slump in exports**, triggered by a combination of supply chain disruptions, weakening external demand and plunging commodity prices. Aside from the shock to growth, this is also expected to put increased strain on public finances, with Treasurer Ian Ling-Stuckey recently warning that the government could lose up to PGK2bn in revenues this year. The Treasurer also announced a stimulus package worth PGK5.6bn, and we believe more rescue spending may be required in the coming months.

**With this in mind, we have raised our budget deficit forecast for 2020 from 4.7% of GDP to 6.5%, exacerbating an already challenging fiscal position**. According to latest data from the Bank of Papua New Guinea (BPNG), total outstanding public debt reached PGK28.1bn as of end-Q319 (see chart below), almost double the level five years earlier (see chart below) and moving towards 40% of GDP. The growing debt burden is putting more strain on government finances as interest and debt servicing payments rise, directing spending away from badly-needed social and infrastructure investments which could boost the country's long-term growth potential.

**A Rising Debt Burden**

Papua New Guinea - Outstanding Public Debt (PGKmn)




Source: Bank of Papua New Guinea, Fitch Solutions

**The Covid-19 shock will generate more fiscal headwinds over the coming years**, though we expect additional support from international organisations and bilateral partners to provide some relief. Indeed, the government said in March that it would seek PGK860mn (around USD250mn) in financial support from multi-lateral agencies like the IMF, Asian Development Bank and World Bank, with the overall assistance likely to be significantly higher. While this should help contain risks to fiscal stability, we expect more constraints to government spending over the medium term, with further implications for the country's ambitious plans to expand its oil and gas sector.