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PAPUA NEW GUINEA ECONOMIC UPDATE JULY 2020

In the Time of COVID-19: From Relief to Recovery



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9 July 2020

Key Messages:

From Relief to Recovery

- Papua New Guinea's economy has been **hit hard by the COVID-19 crisis** due to weaker demand and less favorable terms of trade
- The **authorities reacted swiftly** to the emerging external shock by developing a package of **emergency health and economic relief measures**
- While the focus of the authorities is currently on crisis mitigation measures, they should also look beyond the current year at a more robust and **resilient recovery over the medium term**

PNG ECONOMIC UPDATE IN THE TIME OF COVID-19

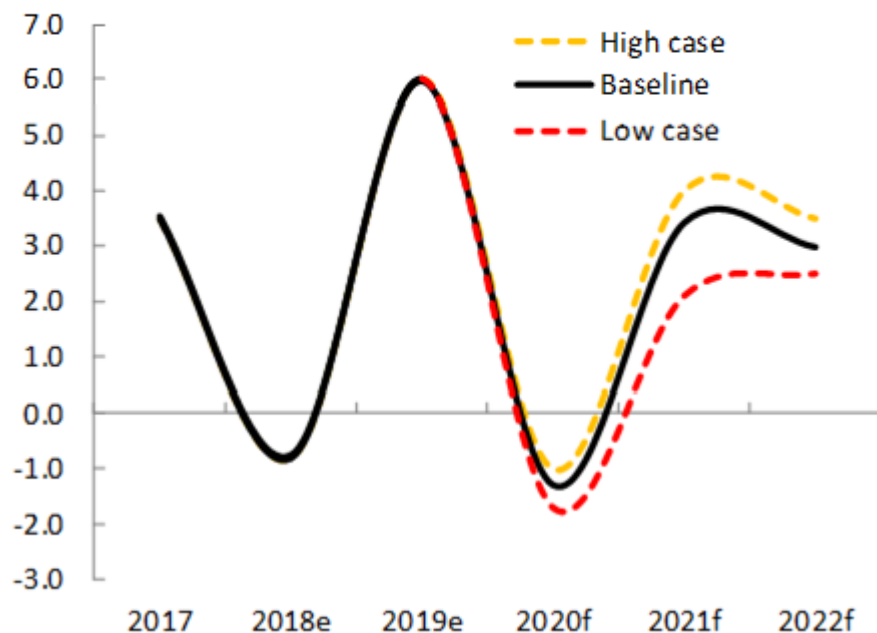
*From Relief
to Recovery*



COVID-19 is another crisis that hit hard the economy of PNG in 2020

An economic downturn in 2020 will be followed by recovery in 2021–22

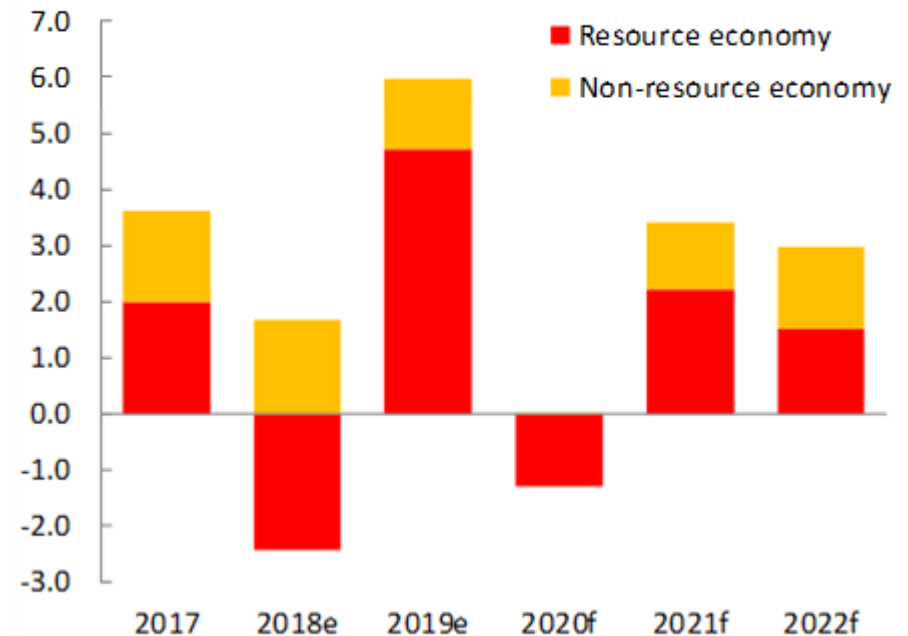
(Real GDP growth in percent)



Source: World Bank staff estimates.

The resource and non-resource parts of the economy are expected to drive the recovery

(Percentage point contribution to real growth)

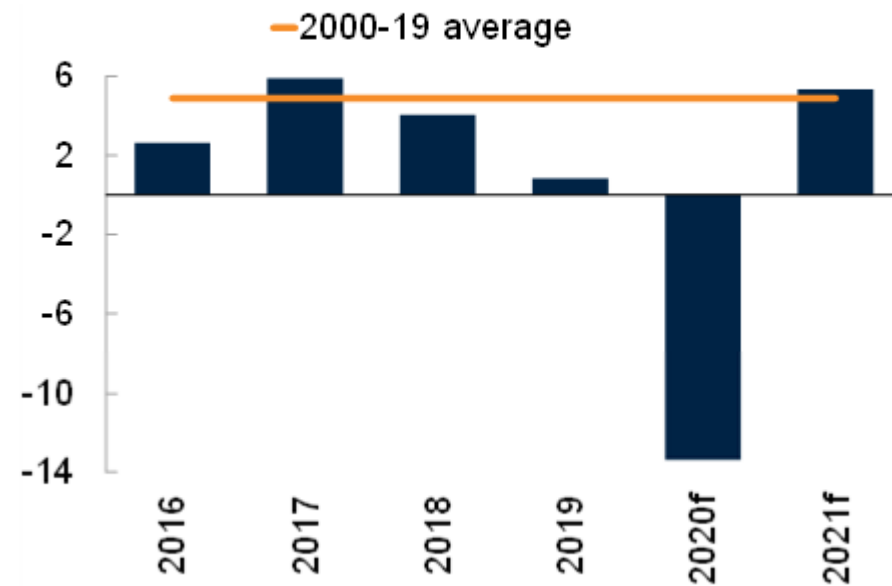


Source: World Bank staff estimates.

Global economic conditions are likely to remain challenging for the rest of 2020

Global trade is being affected severely by the COVID-19 crisis

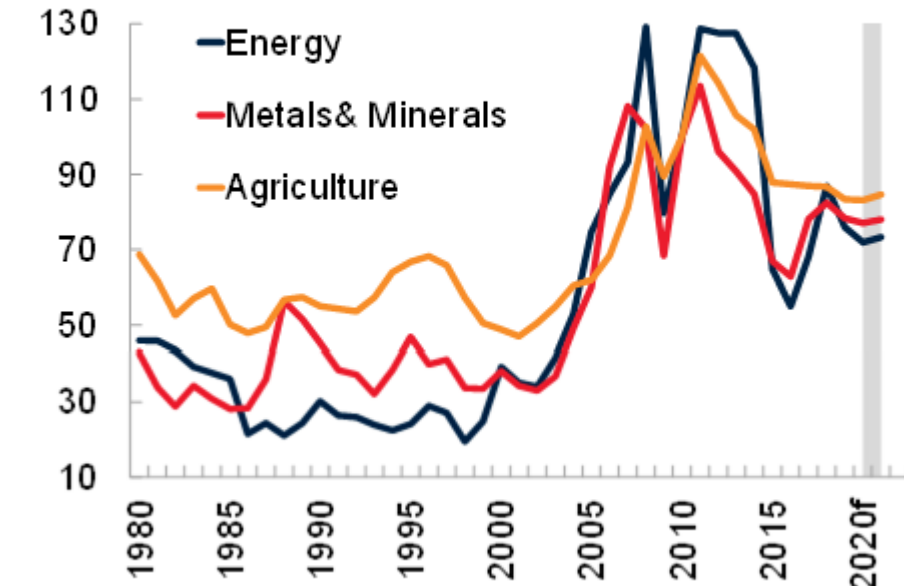
(Percent)



Sources: Haver Analytics; World Trade Organization.

Global commodity prices are hit by the crisis, with energy prices affected most

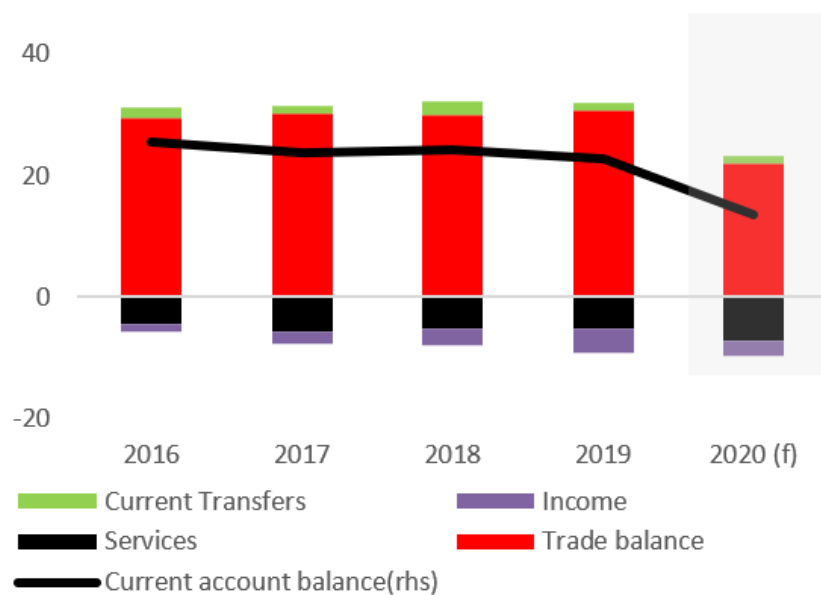
(Index=nominal U.S. dollars; 2010=100)



Sources: Haver Analytics; World Bank staff estimates.

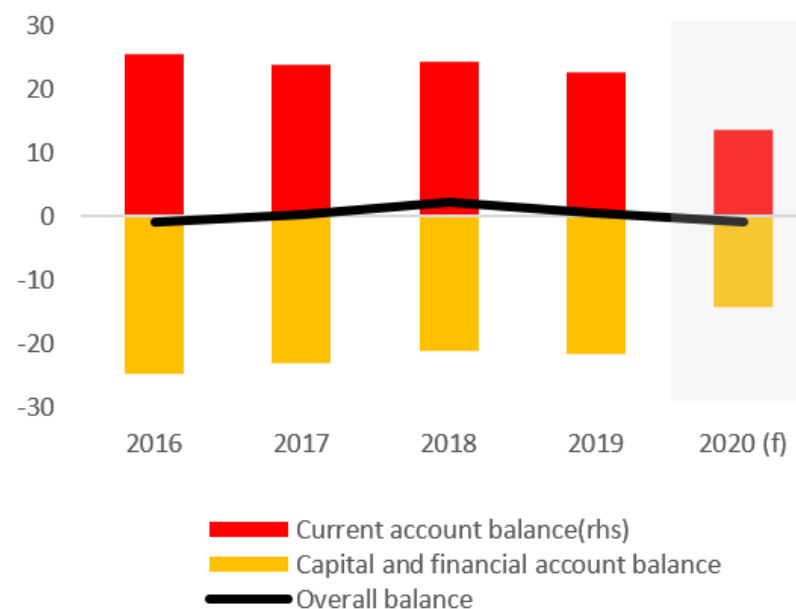
Weaker external demand and lower prices put extra pressure on the external balance

Current account balance continued posting surplus
(Percent of GDP)



Source: Bank of Papua New Guinea.

Surplus in current account was used to pay down debt
(Percent of GDP)



Source: Bank of Papua New Guinea.

The authorities rolled out a package of health and economic relief measures

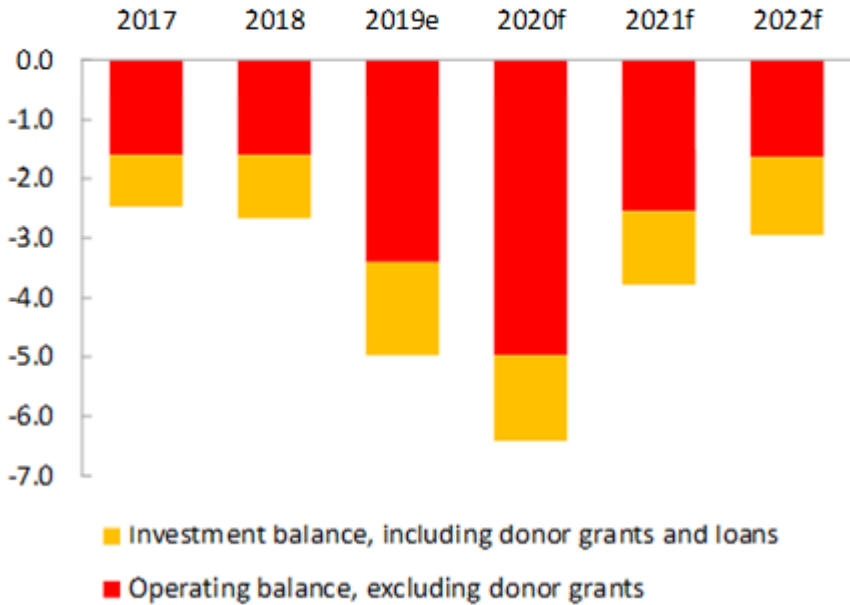
(In PGK millions)

COVID-19 response measures	Budget	Off-budget	Total
Health and security measures	410		410
Emergency Preparedness and Response Plan	262*		262
Extra police and defense forces; citizen repatriation	148		148
Social support and price controls	5	500	505
Unemployment support in the formal sector		500	500
Social/food assistance to the informal sector	5	PM's salary	5
Price control of essential food/household items			
Business and liquidity support	320	600	920
Rural sector and MSME support	250		250
Additional economic stimulus allocation	70		70
Loan repayment holidays for 3 months		600	600
Tax filing and payment deferrals for 2 months			
Liquidity support/ quantitative easing			
Crisis Response Package	735	1,100	1,835

Note: *Development partners have allocated nearly US\$19 million in grants for health emergency support, including Australia (AUD20.5 million), the United States (US\$3.5 million), New Zealand (\$NZ 3 million), and China (PGK 1 million). World Bank has provided a fast-track COVID-19 loan of US\$20 million.

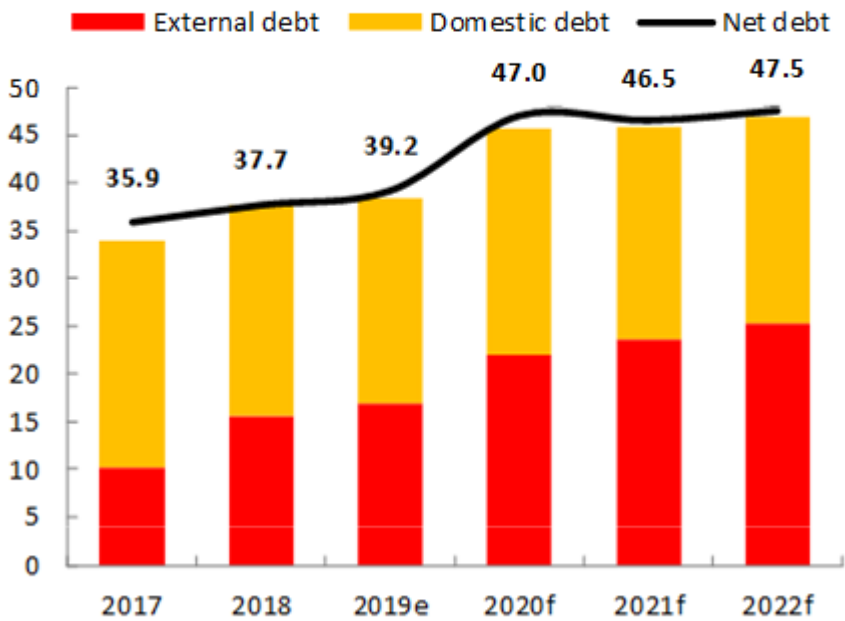
The crisis will lead to a higher fiscal deficit, complicating the debt picture

The overall fiscal deficit will peak in 2020, before starting to narrow after
(Percent of GDP)



Sources: Department of Treasury, World Bank staff estimates.

Expansionary fiscal policy and the COVID-19 impacts will push public debt higher
(Percent of GDP)



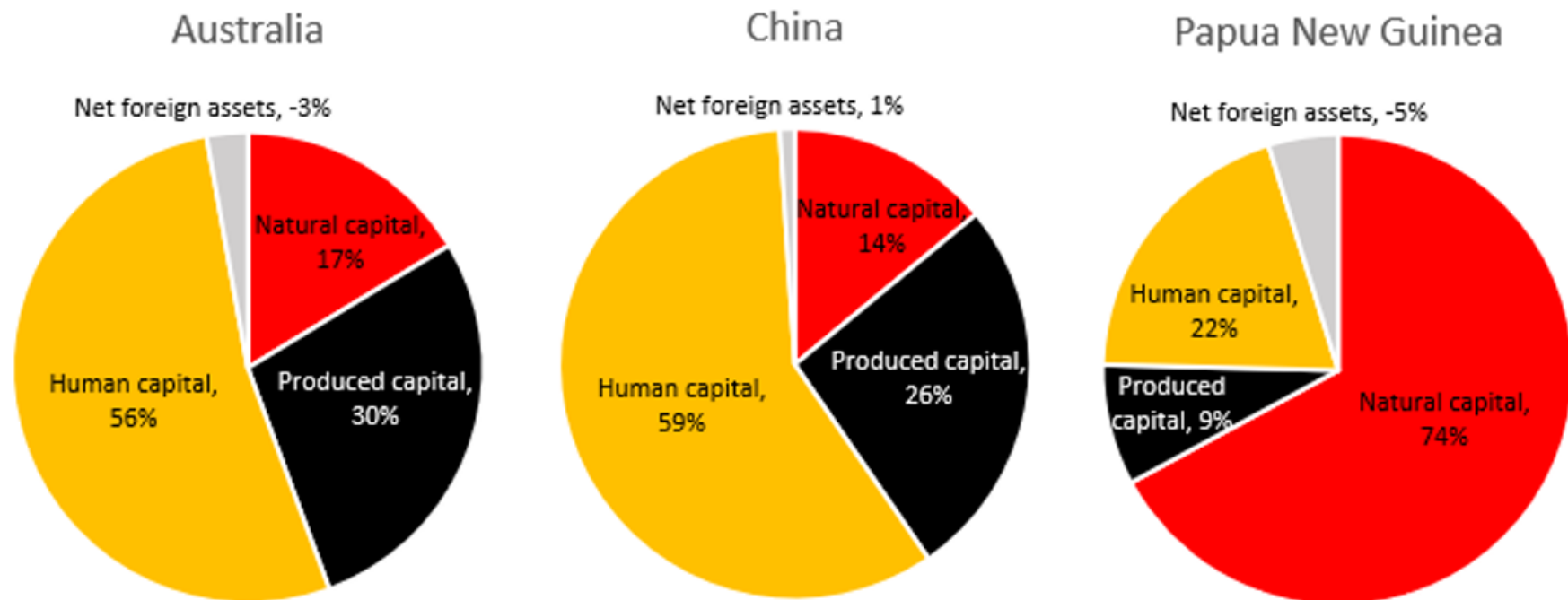
Sources: Department of Treasury, World Bank staff estimates.

The crisis provides an opportunity to prepare the economy for resilient

	Short Term Immediate Crisis Response (being implemented)	Medium Term Economic Recovery and Resilience (to be considered)
Protecting lives of the population		
Health of the nation	Implementing the COVID-19 Emergency Preparedness and Response Plan	Ensure full and timely disbursement of grants for frontline health service delivery
Supporting livelihoods of vulnerable households and small businesses		
Jobs/social protection	Providing unemployment packages and in-kind support	Introduce a targeted social assistance program
Small firms support	Providing tax relief and financial support to MSMEs	Enhance community-based financial institutions; leverage mobile and digital payments technology
Ensuring stable and sustainable development		
Prudent fiscal policy	Working on an economic stimulus package	Implement counter-cyclical fiscal policy
Public debt sustainability	Relying on friendly concessional financing	Strengthen debt management capacity
Physical infrastructure development	Cutting non-essential capital spending	Resume the Connect PNG program

PNG has to convert its natural endowments into human and physical

Estimates of Wealth Accumulated in Australia, China, and Papua New Guinea, 2014
(Share of total wealth)



Source: World Bank 2018. *The Changing Wealth of Nations*.

PNG ECONOMIC UPDATE

SPECIAL FOCUS SECTIONS

- *Human Capital Development as a Prerequisite for Inclusive Growth*
- *Investing in Physical Infrastructure for Sustainable Development*