



BUSINESSADVANTAGEPNG

Economic update on Papua New Guinea

An online business briefing



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The world economy has changed vastly due to COVID-19 and Papua New Guinea has been affected too. Its Marape government is considering a supplementary budget and is receiving more International Monetary Fund support. Our experts, Ilyas Sarsenov (World Bank's Country Economist for PNG) and Scott Roger (PNG Mission Chief for the International Monetary Fund) provide an update on the state of PNG's economy and look at its prospects for the coming year.

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Q & A responses

Here are responses kindly provided by the speakers to some of the questions asked during our online business briefing, 'Economic Update on Papua New Guinea', held on 9 July 2020. A full video recording of the session is available on the Business Advantage PNG Youtube channel.

Question: What assumptions regarding the COVID-19 infection rate in PNG does the World Bank make in providing its forecasts for PNG's real GDP in 2020, 2021 and 2022?

Ilyas Sarsenov (World Bank): In our analysis we did not make explicit assumptions of the infection rate, hoping that the health system will be able to cope with a gradual spread of COVID-19 in the country. Our key assumptions cover demand/volume and price effects from the COVID-19 impacts via three transmission channels: trade/export revenue, people/remittances, and FDI/investment flows.

Question: Has anyone in the private sector received any help from the government?

Ilyas Sarsenov (World Bank): According to the government's economic stimulus package, financial support is supposed to be extended to MSMEs, especially in the rural areas. Also, IRC has provided 2-months' tax filing and payment deferrals and commercial banks have introduced 3-months' loan repayment holidays to businesses.

Question: As you know, at this time ADB is providing some support to enhance PNG debt management capacity. Is the WB and/or IMF planning something in this area as well and if so, when? has this money been disbursed? If yes, why does the PNG govt still owe businesses in PNG circa K1 billion, according to POMCCI and LCCI? If not, why not? Is IMF changing its mind?

Ilyas Sarsenov (World Bank): Yes. The IMF has already disbursed funds under its Rapid Credit Facility. The World Bank has provided a US\$20 million COVID-19 Emergency Response loan. There is still a financing gap of US\$300–400 million that remains to be filled in 2020. It's a challenging task for the authorities.

Scott Roger (IMF): PFTAC is getting a debt management advisor who is likely to provide TA [technical assistance] to PNG in due course.

Question: Does the IMF and World Bank have any estimate on a timeline for when COVID 19 is contained enough to allow for normal economic development to resume?

Scott Roger (IMF): IMF does not. This is mainly a healthcare issue.

Ilyas Sarsenov (World Bank): There is huge uncertainty of when COVID-19 will be contained. There will be more certainty when a vaccine is developed and is available to everyone. Until then we can only speculate on this.

Question: GDP is a relevant economic measure for larger economies like China and Australia, but with an emerging economy like PNG, there are glaring differences when you measure with GNI per capita?

Ilyas Sarsenov (World Bank): GDP or GNI represent income generated by an economy in a given period of time (usually one year). A change of per-capita income across periods shows if an economy converging or diverging vis-à-vis its peers, as it contributes to national wealth creation. As far as wealth creation and its quality are concerned, the economies of Australia and China are good examples for PNG to follow, especially given their successes in converting natural wealth into productive human capital and quality physical infrastructure.

Scott Roger (IMF): It is not so much an issue of size, but of the importance of inward or outward foreign investment. PNG has very substantial inward FDI, so GDP is significantly higher than GNI. A proper estimate of the outflows of investment income would be needed to estimate GNI with any accuracy.

Question: Why is PNG Natural Capital not measurable enough to serve as equity for self-funding rather than continuous borrowing?

Ilyas Sarsenov (World Bank): Natural capital can be converted into financial assets that in their turn can be used by governments to invest into productive human and physical capital and/or to save those financial resources for future generations (where sovereign wealth funds are available). In other words, governments can use and convert natural resource endowments into other forms of equity, by investing in productive human capital and quality physical infrastructure for inclusive and sustainable development.

Question: What is an estimate of what the PGK exchange rate/s should be if freed up?

Scott Roger (IMF): The most recent Staff Report for the 2019 IMF Article IV Consultation includes an External Balance Assessment, which uses a standard methodology to estimate the degree of over/under-valuation.

Ilyas Sarsenov (World Bank): There is no surprise that the COVID-19 crisis puts an extra pressure on the exchange rate. Therefore, BPNG has increased FX interventions and the government is engaging with development partners to obtain additional support for the National Budget in 2020.