

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS COUNTRY RISK & INDUSTRY RESEARCH and is NOT a comment on Fitch Ratings' Credit Ratings. Any comments or data are solely derived from Fitch Solutions Country Risk & Industry Research and independent sources. Fitch Ratings analysts do not share data or information with Fitch Solutions Country Risk & Industry Research.

Covid-19 Outbreak To Delay Economic Recovery In PNG

21 Apr 2021

Papua New Guinea

Economic Activity

Key View

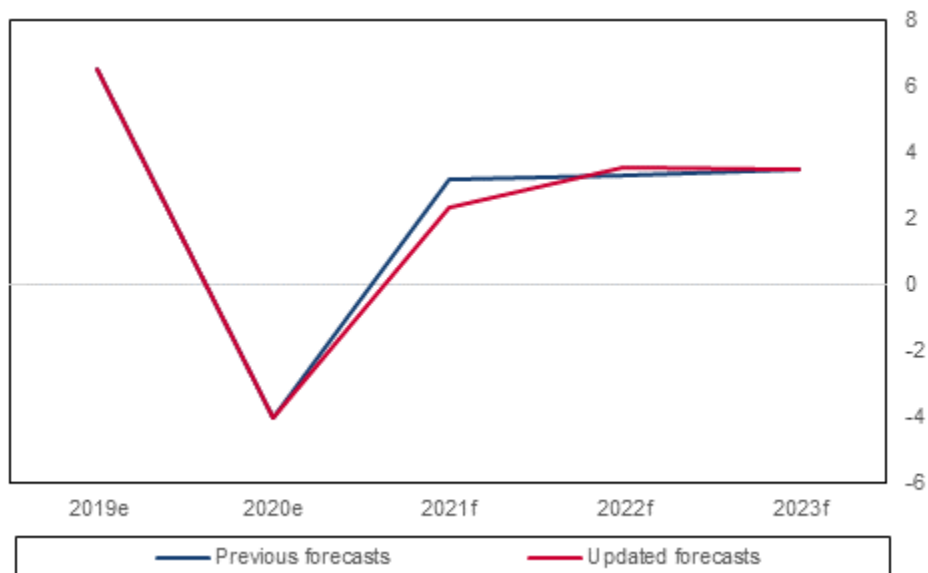
- We at Fitch Solutions now expect real GDP growth to reach 2.4% in 2021, down from a previous forecast of 3.2%, as a surge in Covid-19 cases disrupts economic activity during H121.
- The recovery should gather momentum towards the end of 2021 and heading into 2022 as vaccines are distributed and coronavirus restrictions are gradually lifted at home and abroad.
- The reopening of the Porgera gold mine, expected in late-2021, will also support a recovery in employment and exports in 2022.
- Short-term risks are still tilted to the downside given the potential for a more severe Covid-9 outbreak over the coming months.

We at Fitch Solutions expect the recent spike in Covid-19 cases in

Papua New Guinea will delay the country's economic recovery. We now forecast real GDP growth of 2.4% in 2021, down from a previous forecast of 3.2% and following an estimated contraction of 4.0% in 2020 (see chart below). The government's National Pandemic Response Controller, David Manning, reported a cumulative total of 9,738 confirmed cases as of April 17, with around 90% of these detected in the last two months.

A Slower Recovery In 2021

Papau New Guinea - Annual Real GDP Growth (%)



Source: UN, National Sources, Fitch Solutions.

The latest wave of cases has prompted tighter social restrictions, which is likely to cause moderate short-term disruption to consumer and business activity. On March 22, the government detailed a four-week 'National Isolation Strategy', prohibiting non-essential domestic travel between provinces, closing schools, restricting social gatherings to 10 people and limiting trading hours. Schools reopened on April 19, but other measures remained in place pending a further review. While key players in the oil and gas sector say they largely been unaffected by the outbreak, the country's OK Tedi copper mine was forced to halt operations for two weeks in March to contain an outbreak on site.

We currently expect the epidemiological situation to improve in H221, though the short-term risks remain tilted to the downside given the threat of an even more severe outbreak. The World Health Organisation (WHO) recently warned that the country was at a critical point given the acceleration of cases, intense pressure on hospitals and limited testing capabilities. The rollout of Covid-19 vaccines from April will provide some relief, though there are concerns over high levels of vaccine hesitancy and potential distribution delays. If the outbreak is not brought under control the country could face a severe health crisis with a knock-on impact on the wider economy.

Notwithstanding near-term headwinds and pandemic risks, we currently expect the economic recovery to gather momentum going in to 2022. Indeed, we have raised our forecast for growth in 2022 to 3.6%, from a previous 3.3%, in part due to anticipated base effects from a weaker expansion in 2021. We also expect a boost in 2022 from the reopening of the Porgera gold mine, which is one of the country's main exporters. The mine is operated by a joint venture **Barrick Niugini Ltd** (BNL) between Canadian firm **Barrick Gold** and China's **Zijin Mining**, but has been closed since April 2020 after the government rejected a renewal of the 20-year lease and sought a greater share of ownership in the venture. Under a deal announced on April 9, PNG will take a 51% stake in the new venture, with BNL holding the other 49% and remaining the mine operator. This clears the way for the mine to reopen, though it is not expected to resume operations until Q421.

The Porgera agreement should also provide a more general boost to investor confidence, which has been hit by the economic downturn and government efforts to secure greater control over the country's resource wealth. We maintain our core view that the country's longer-term economic development hinges on the [successful commercialization of key resource projects](#), especially in the energy and mining sectors. With this in mind, the anticipated approval in the coming months of a special mining license for the Wafi-Golpu gold and copper project would be positive for our long-term growth outlook.

This report from Fitch Solutions Country Risk & Industry Research is a product of Fitch Solutions Group Ltd, UK Company registration number 08789939 ('FSG'). FSG is an affiliate of Fitch Ratings Inc. ('Fitch Ratings'). FSG is solely responsible for the content of this report, without any input from Fitch Ratings. Copyright © 2021 Fitch Solutions Group Limited. © Fitch Solutions Group Limited All rights reserved.