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PNG To Focus On Resource Projects For Recovery, But Uncertainty Remains High

16 Sep 2021

Papua New Guinea

Economic Activity

Key View

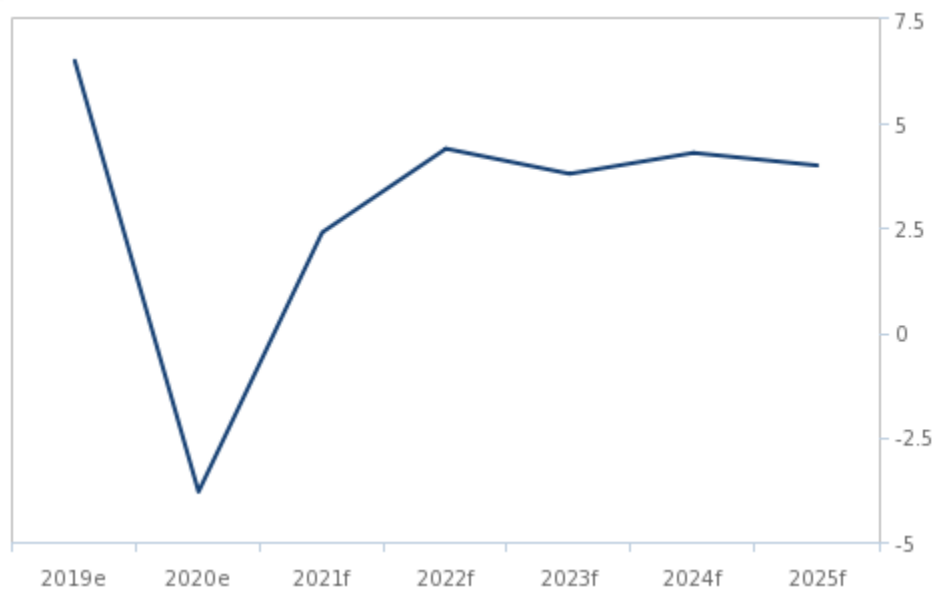
- We at Fitch Solutions believe the PNG government will seek tangible progress in key energy and mining projects to support an improved economic outlook ahead of the mid-2022 general election.
- We currently forecast real GDP of 2.4% in 2021, rising to 4.4% in 2022 as economic conditions normalise and business confidence improves.
- Recent advances in talks with international energy firms are encouraging for the longer-term growth outlook, though there remains the potential for further delays in reaching Final Investment Decision status on key LNG projects.
- Downside risks remain significant in the short term, including the ongoing threat of a severe Covid-19 outbreak and elevated political uncertainty in the run up to the election.

We at Fitch Solutions expect the Papua New Guinea (PNG) government to move to advance major resource projects to drive the country's economic recovery from the estimated 3.8% contraction experienced in 2020. We expect growth will remain relatively slow at 2.4% in 2021 due to ongoing pandemic disruption but then accelerate to 4.4% in 2022 on improved consumer and business confidence and stronger external demand.

Our core view remains that PNG's medium and long-term economic outlook hinges on successfully commercialising key resource projects. Given Prime Minister James Marape's flagship pledge to 'take back PNG', we expect the government will push to make tangible progress on these resource deals before the general election due in mid-2022. However, we note significant ongoing pandemic risks in the short term given the country's very low vaccination rate. [Political uncertainty will also likely remain elevated in the run up to the election](#), representing a headwind for investor confidence.

Recovery To Gather Momentum From 2022

PNG - Real GDP Growth, % (2018-2024)



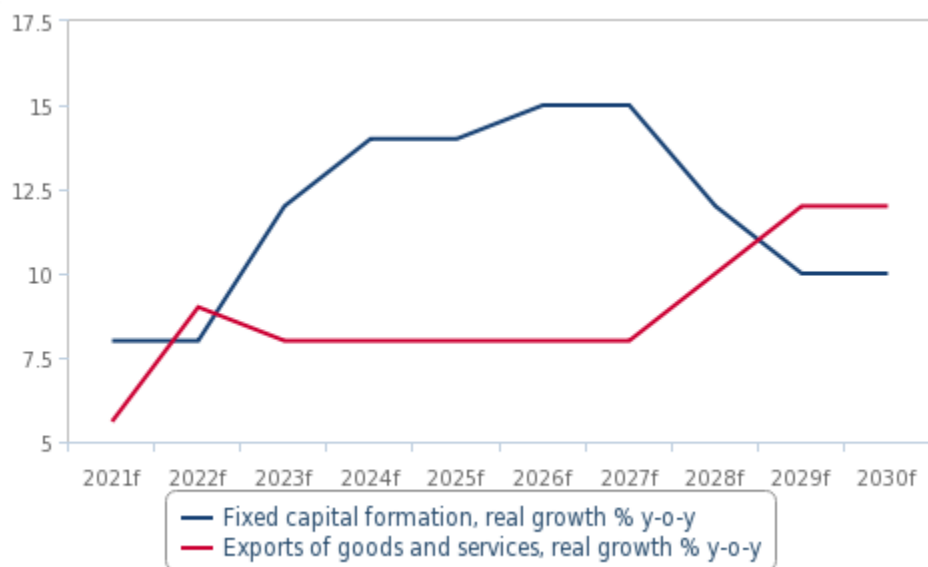
e/f = Fitch Solutions estimate/forecast. Source: National Sources, Fitch Solutions

In September 2021, Marape announced that his government was prioritising work on six key energy and mining projects over the coming months: Papua LNG, P'Nyang LNG, Pasca A LNG, Pandora LNG, the New Porgera Mine and the Wafi-Golpu gold and copper mine. The 5.4mn-tonne per annum Papua LNG development of the Elk-Antelope gas field, led by **TotalEnergies**, was originally set to be part of a wider USD13bn expansion of the country's existing PNG LNG project operated by **ExxonMobil**. However, after negotiations between Exxon and the PNG government stalled in February 2020, [the government signed a smaller-scale Fiscal Stability Agreement with Total in February 2021](#). A Final Investment Decision (FID) on this project is now expected in 2023. There is also renewed hope that the government will soon reach an agreement with Exxon on developing the P'nyang gas field after both sides announced in August that talks would resume. If both projects are given the green light, they have the potential to double PNG's LNG exports once fully operational.

There has also been recent progress on the other two highlighted gas projects - Pasca LNG and Pandora LNG. In July, it was reported that the government agreed terms with Australian-based **Twinza Oil** to develop the offshore Pasca A gas field in a project worth an estimated USD2.4bn. A deal is expected to be closed in Q421. Meanwhile, in September the government said it had awarded state-owned **Kumul Petroleum** the rights to develop the Pandora gas field.

In the mining sector, the Wafi-Golpu joint venture, spearheaded by Australia-based **Newcrest** and South Africa's **Harmony Gold** has faced numerous delays amid ongoing negotiations with landowners and provincial authorities. However, Marape stated that he aimed to complete a deal and grant the venture a Special Mining License (SML) by December 2021. This would set the project up to potentially begin production by 2028, while providing an important boost to investment in the years leading up to this. The 'New Porgera Mine' project reflects the recent restructuring agreement with operator **Barrick Niugini Limited**, which is expected to allow production to resume shortly following a hiatus since April 2020.

Major Resource Projects Could Underpin Strong Investment & Export Growth PNG - GFCF & Export Growth (2019-2030)



f = Fitch Solutions forecast. Source: National Sources/Fitch Solutions

Despite these encouraging developments, we note that short-term risks to PNG's economic outlook remain heavily skewed to the downside. The main immediate threat remains of another local Covid-19 outbreak: as of August 30, 2021 only 1.1% of the population had received at least one vaccine dose and 0.4% had been fully vaccinated, meaning the country is one of the most exposed in the world to the virus. Though testing remains limited, local media have reported signs of rising cases linked to the Delta variant in the country's western region bordering Indonesia, while on September 15 the government tightened some border restrictions, including new quarantine periods for international arrivals and a ban on unvaccinated incoming travellers.

We also believe an uncertain and potentially volatile political climate will also represent an important short-term headwind. We currently hold our Short-Term Political Risk Rating score at 44.0 (out of 100), the lowest among the Pacific Islands as the government continues to face risks to stability both from opposition pressure and negotiations over [independence for the autonomous region of Bougainville](#).

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