

TIPIL

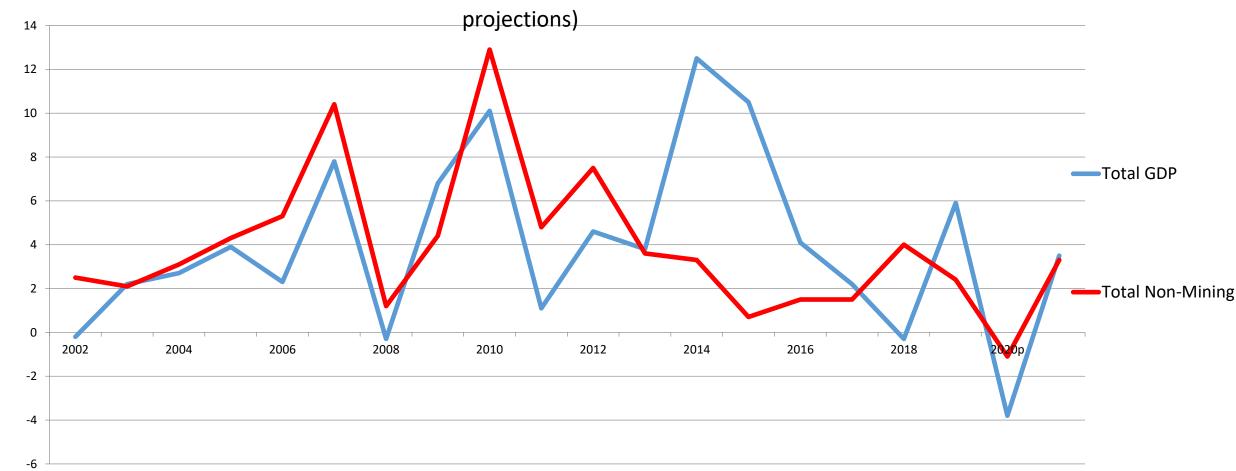
Impact of the Global Pandemic-lectron Brand TAIMA Economic Crisis on Papua New Guinea

Paul Barker for CPA Conference, Lae, 19 August 2021

- PNG appears, to date, not to have been impacted by the health or economic impact of the
  COVID-19 Pandemic to the extent of many other countries, including some of its
  neighbours hit hard by the successive waves of the virus (including the recent Delta variant),
  or those countries with dominant affected industries, notably tourism or oil and gas sectors.
  - Probably the early shut down of borders (notably with China) and relative isolation of PNG and limited domestic travel, combined with a relatively young population, restrained the health impact during 2020.
  - 2021 saw some surge in cases, notably from March, and now we have the arrival of the much more transmissible Delta variant, so cases are likely to rise again, as they have with neighbours like Indonesia and Fiji and around the world. We don't quite know the situation, as there's very limited testing, but there are also very low vaccination rates.
  - It has been fortunate that cases, to date, have been relatively low, as PNG's capacity to impose heavy lockdowns, as applied in many developed countries, but even in some developing countries, like Philippines, is very low;
  - Years of poor economic performance and a decade of sustained budget deficits, combined with weak public institutions, low financial inclusion and the predominance of the informal economy in providing livelihoods, ensures that a full and extended lockdown cannot occur without causing more serious consequences.

Context: 2019 had seen some economic recovery after several years of local economic growth and sluggish employment growth. Government revenue also improved, but with weak expenditure control and expenditure slippage from 2018, 2019 saw a further high budget deficit and continued rise in public debt and debt servicing costs.

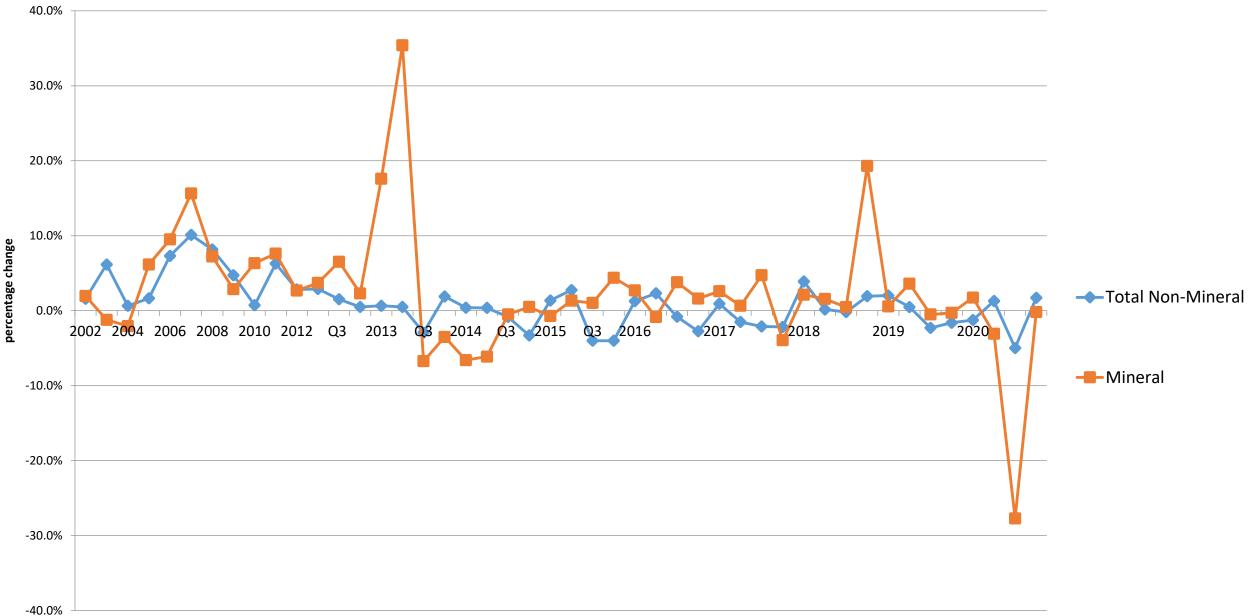
GDP Growth Rate 2002-2021 (data: NSO to 2014, Treasury since 2015 and 2021 Budget



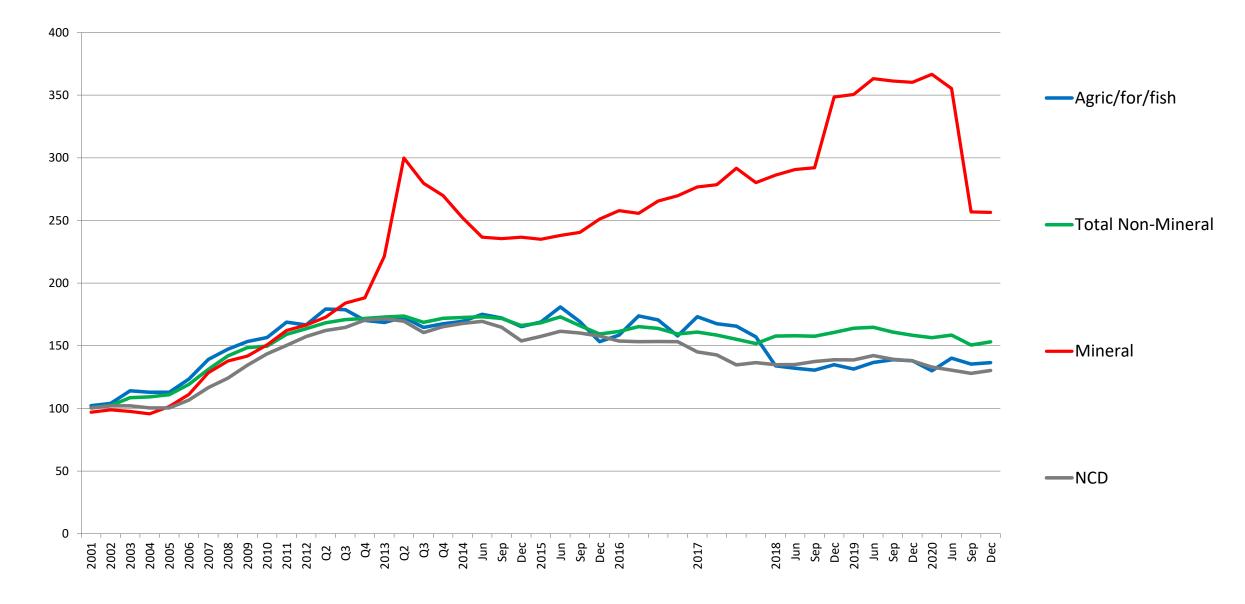
Year

- PNG's poor economic performance was the result of external and a range of domestic factors
- External:
  - big fall in oil and gas prices immediately after PNG commenced LNG production, owing to surplus global supply
  - Prices of many other commodities needed for diverse economy low during the decade
- Domestic:
  - 2018 Earthquake
  - Extensive constraints to business and investment:
    - Lack of foreign exchange with lack of inflow of forex, despite major current account surplus, and limited foreign direct investment, and lack of market driven exchange rate; (major proposed resource projects also put on hold – Papua LNG, P'nayng & WG)
    - Poor governance and extensive corruption, including in land and other transactions
    - Poor, unreliable and costly public infrastructure and services including electricity, road transport, ICT etc, pushing up cost of doing business and risks
    - Uncertain and changing policy environment, investment rules, with new laws, restricted activities and many new charges proposed/pending
    - Weak education system and skills training, leaving mixed standards for workforce
    - Undue focus on take back instead of growing economy and formal workforce

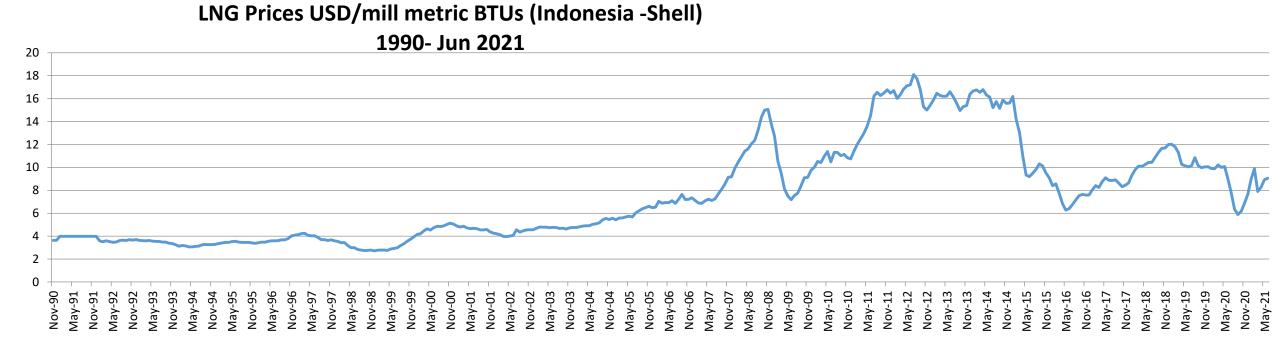
#### **Employment Trends to 2002-2020 (BPNG)**

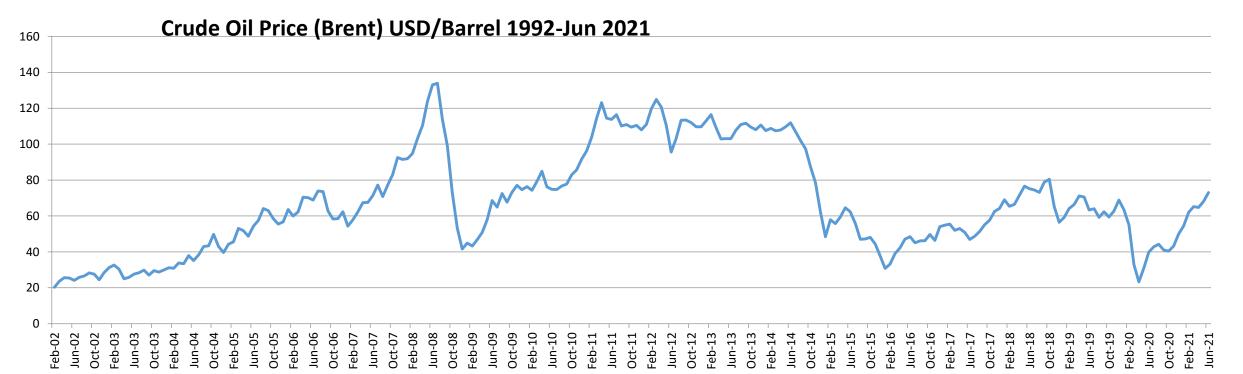


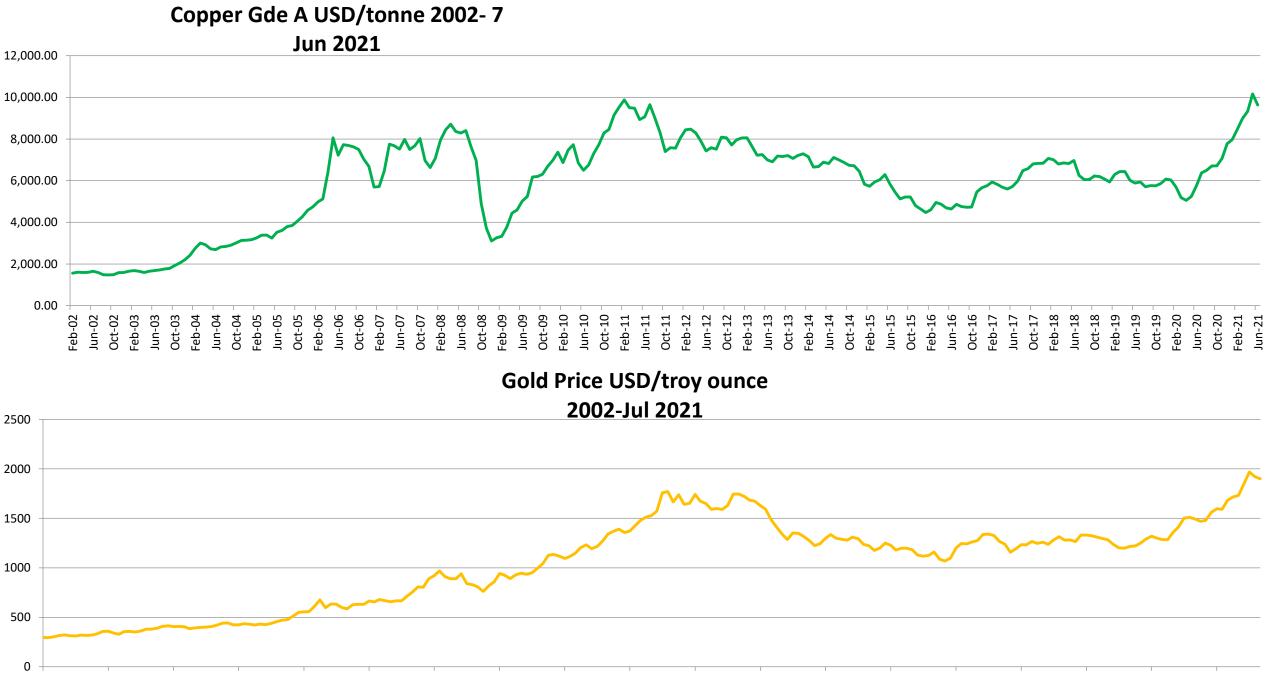
#### Formal Sector Employment Growth 2001-2020 (BPNG Employment Survey)



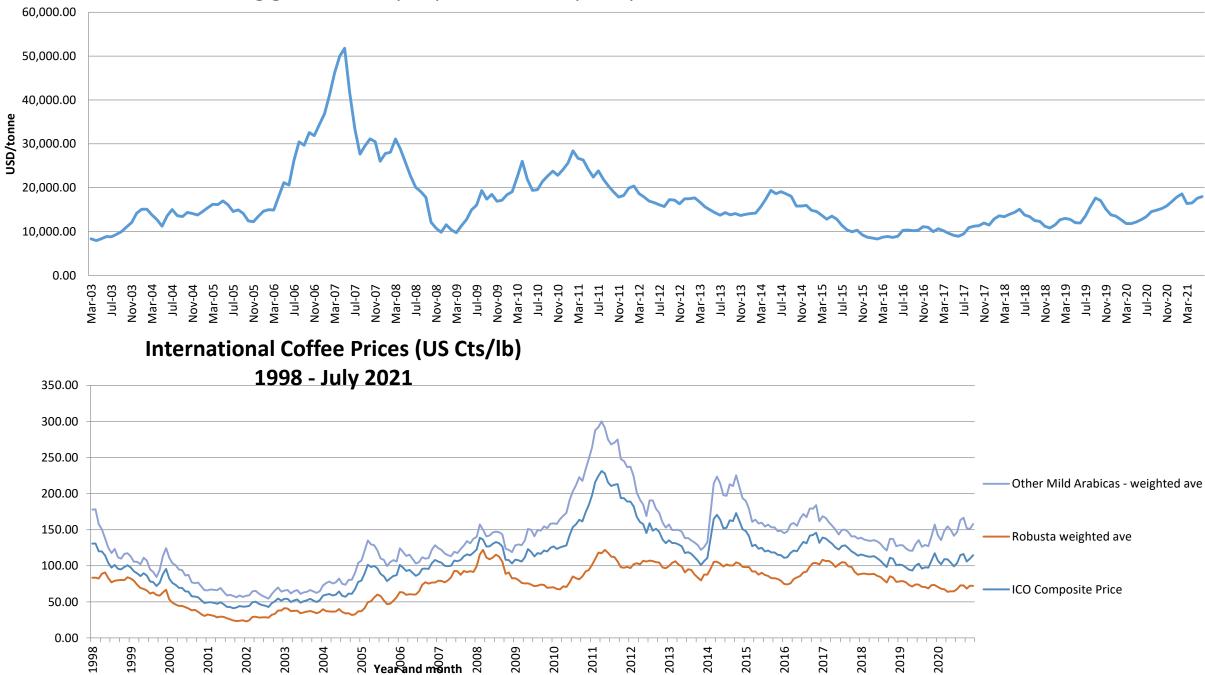
March 2002 = 100







Feb-02 Feb-03 Feb-04 Feb-05 Feb-06 Feb-07 Feb-08 Feb-09 Feb-11 Feb-12 Feb-15 Feb-17 Feb-18 Feb-19 Feb-20 Feb-10 Feb-13 Feb-14 Feb-16



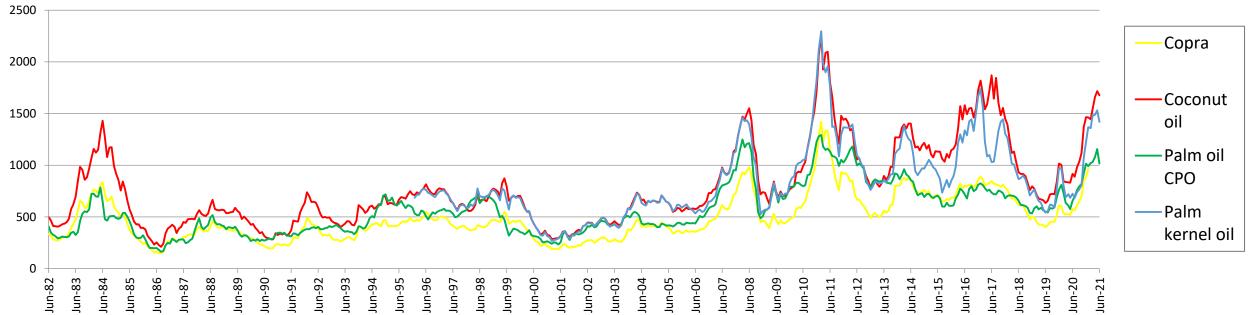
#### Nickel, melting grade, LME spot price, CIF European ports, US Dollars/Tonne, Mar 2002- Jun 2021

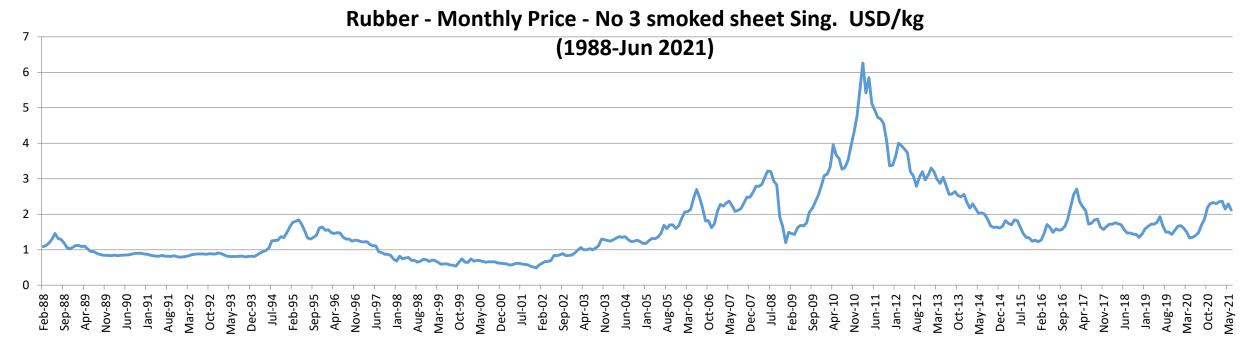
#### International Cocoa Price (ICCO) USD/tonne

Jan 2002 - 10 August 2021

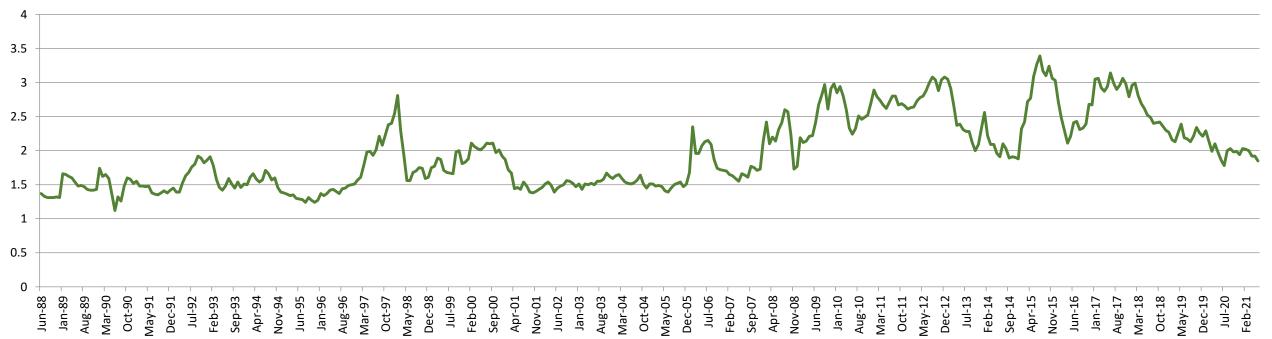


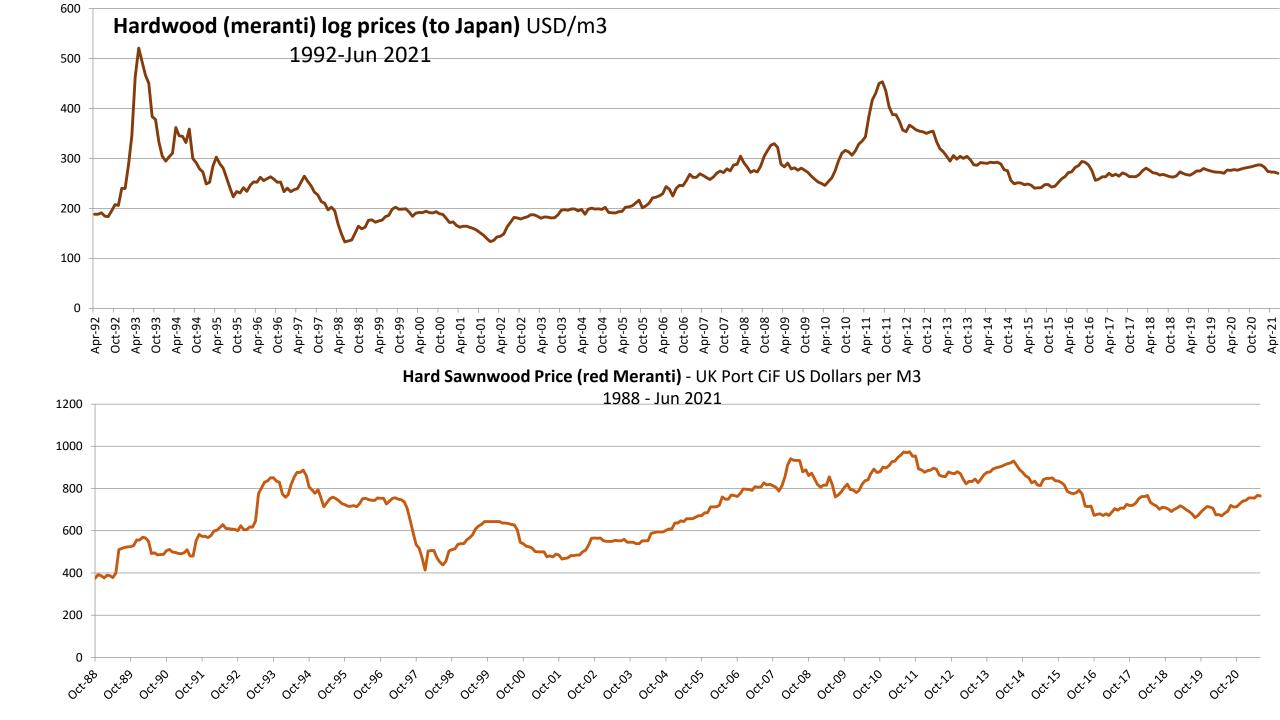
palm oil and coconut oil prices (fob), Jun 1982-Jun 2020 USD/tonne



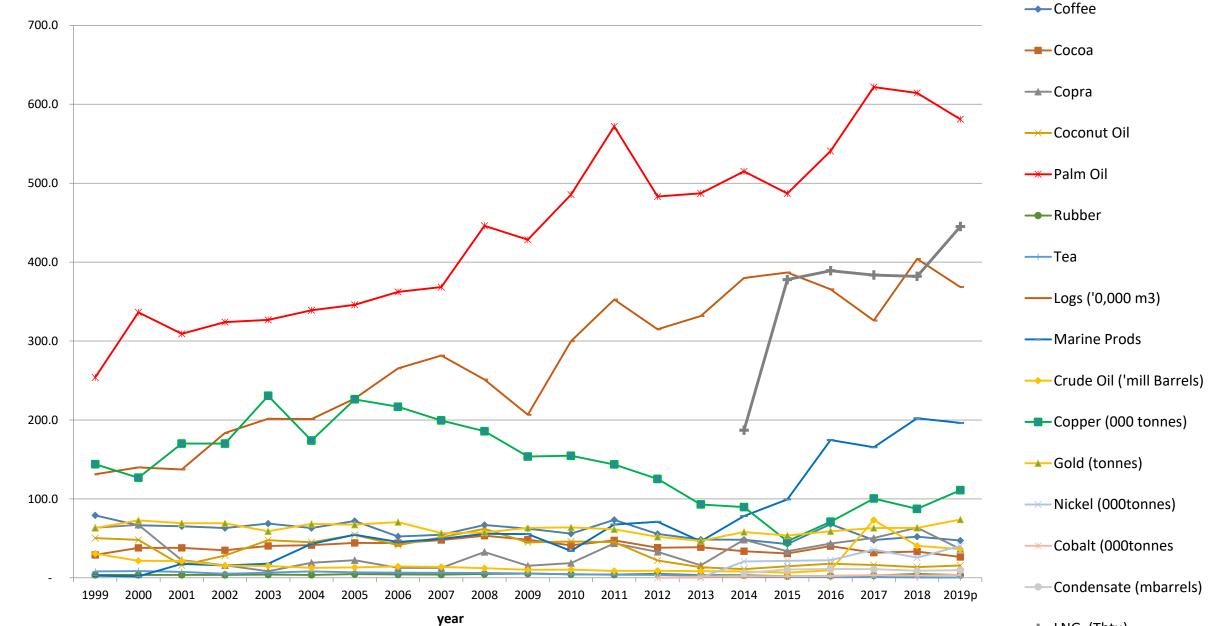


#### Tea Prices USD/Kgs 1988-Jun 2021

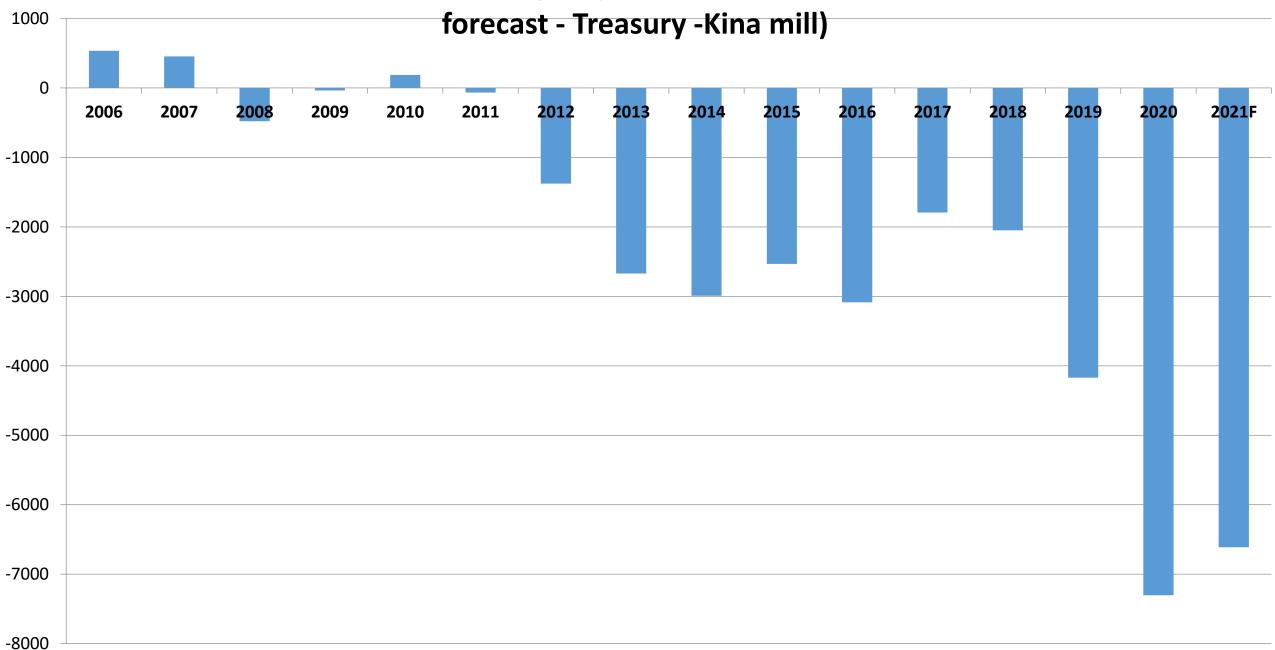




# **Commodity Exports - Quantity 1999-2019p** ('000 tonnes or specified) (BPNG, Treasury and Commodity Boards)



- The Fiscal situation was already difficult prior to the outbreak of the pandemic with
  - Weak revenue from the resources sector, particularly 2016 onwards, although revenue recovering slowly in 2019,
  - A high dependence upon personal income tax, from a small formal sector workforce, and from GST
  - Non-mining corporate tax was also important, but subsequently hit with Covid-19
  - Expenditure growing and lacking performance and accountability –costly and often unproductive status projects and major programs, like free education, which although valuable faced challenges of implementation and standards
  - Budget deficit from 2012, growing public debt and debt servicing costs, which displacing other priority expenditure; deficit grew in 2019, despite revenue
  - Limited public accountability...to Parliament, public, including audits of public account and govt institutions years behind schedule (as highlighted in the biannual Open Budget Survey conducted by the Institute of National Affairs)



Central Government Financing surplus-deficit 2006-2021f (FBO 2020, 2021

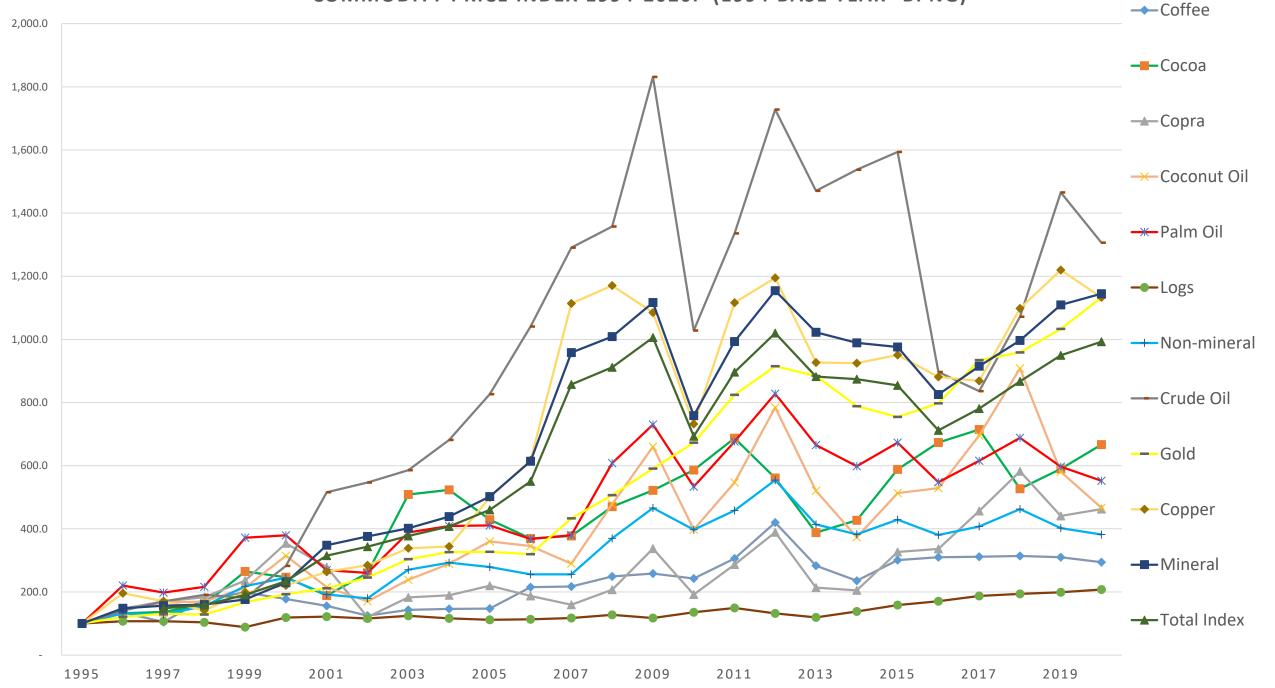
Impact of Covid-19 Pandemic on PNG:

- The start of 2020 it was hoped that the economic improvements of 2019 would continue, revenue improve and expenditure be better targeted and controlled
- But Covid-19 intervened; although it's had a direct impact on health and lives in PNG, and continue to do so, perhaps more so in future with the Delta variant, the main effect in PNG to date has been more indirect with the impact on global markets and the domestic prevention and control measures
- The start of 2020 saw global oil and gas (and associated vegetable oil) prices collapse, initially in view of supply surplus and issues amongst OPEC members, but then in the face of plummeting demand for energy for transport, manufacturing and other purposes in the face of global lockdowns and loss of travel and movement, starting in China
- The tourism, aviation and hospitality industry has been the hardest and longest hit around the world; and countries or regions most dependent upon this industry have taken a big shock; although some recovery in 2021 in some places

- In 2020 most global markets were severely impacted, covering most commodities, and stock markets, especially businesses most impacted
- Governments and the international financial institutions stepped in to provide relief to the most affected citizens, businesses, and to the weakest economies hit by fiscal and balance of payments difficulties, including PNG
- Richer countries had extensive relief programs for their citizens and businesses;
- Developing countries, like PNG, in weak fiscal situations, a dominant informal economy and weak social protection arrangements, data and institutional capacity, largely felt obliged to avoid heavy lockdowns, with working or studying at home and e-commerce or e-government largely unavailable
- PNG was somewhat fortunate, not only that in 2020 Covid was restrained or having limited impact and that most of the population remains self-sufficient, but also that gold (for several decades the main export commodity, until LNG commenced) enjoyed a strong price appreciation on the back of the global market uncertainty.
- Gold helped provide export earnings, revenue and employment levels (depite lockdowns, notably at Ok Tedi); except, that the Government chose to kick a serious 'own goal', closing the 2<sup>nd</sup> largest gold mine, Porgera, in April 2020, with prices at their peak, and thrusting almost 3,000 out of work, and thousands of associated contractors, suppliers, mostly tax payers

- From the third quarter 2020, when rapid vaccination development seemed prospective, many markets started recovering, and with the rollout of vaccines in 2021 (and a more logically driven and internationally engaging US Govt) economies around the world showed strong rebound, starting in China, but then embracing the US, Europe, Japan and extending to major emerging economies and markets.
- Countries with high vaccination rates have seen a partial return to normal economic and social activity in 2021, including the entertainment and hospitality industry; a few developed countries which had either achieved effective early control measures, including Australia, NZ, Japan, Singapore and Taiwan, and many developing countries which were less badly affected in 2020, including Indonesia, and various SE Asian countries, India and Fiji, have experienced surging cases with the arrival of the more contagious Delta variant. Countries with irrational and ineffective responses to Covid with surging caseloads, like Brazil, have taken a heavy toll
- PNG has benefitted from the recovery in prices of several of its export commodities, including oil, gas and vegetable oils in late 2020/early 2021.
- Agreement has been made to revive the Porgera mine, although this process will still take several months, and commitments have been made to progress other major resource projects, providing some enhanced confidence, but little will be seen in 2021, and the timeline falls largely beyond a General Election and the period of promises, district spending and disruption

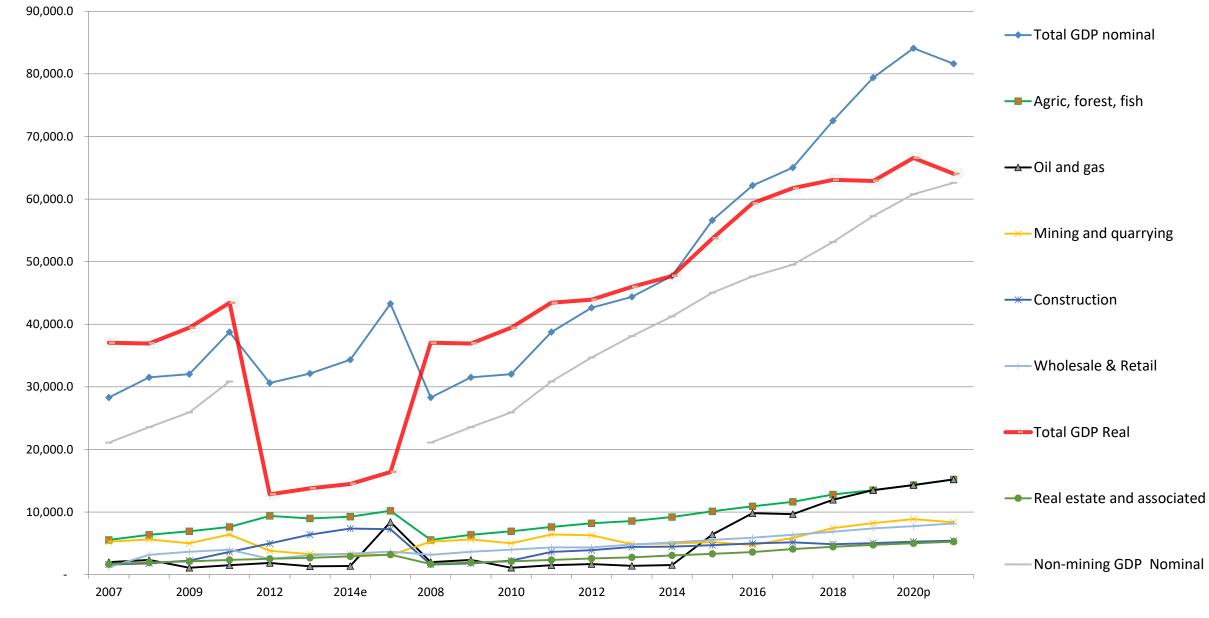
COMMODITY PRICE INDEX 1994-2020P (1994 BASE YEAR- BPNG)



The commencement of COVID-19 seems to have coincided, or become an excuse for major delays in the provision of needed economic and fiscal data. The Final Budget Outcome report for 2020, which by law, must be released publicly by 31 March 2021, was only released in the 2<sup>nd</sup> week of July, while the Mid-Year Economic and Fiscal Outlook reports, due by the end of July, is still unavailable. Other 'In-Year' reports, which used to be provided, are no longer released at all. Open Budgets and Budget reporting and auditing, and citizen engagement, are all critical first steps to ensuring good use of public funds.

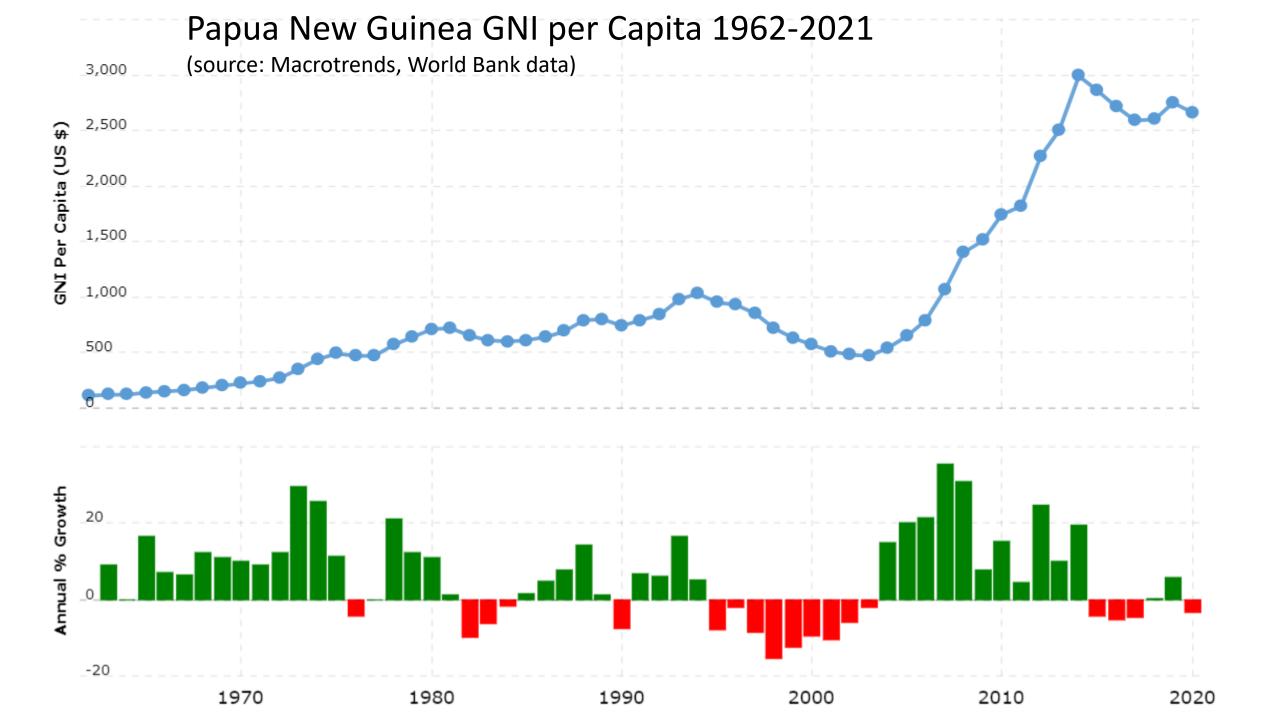
#### GDP at current and constant prices 2007 - 2021

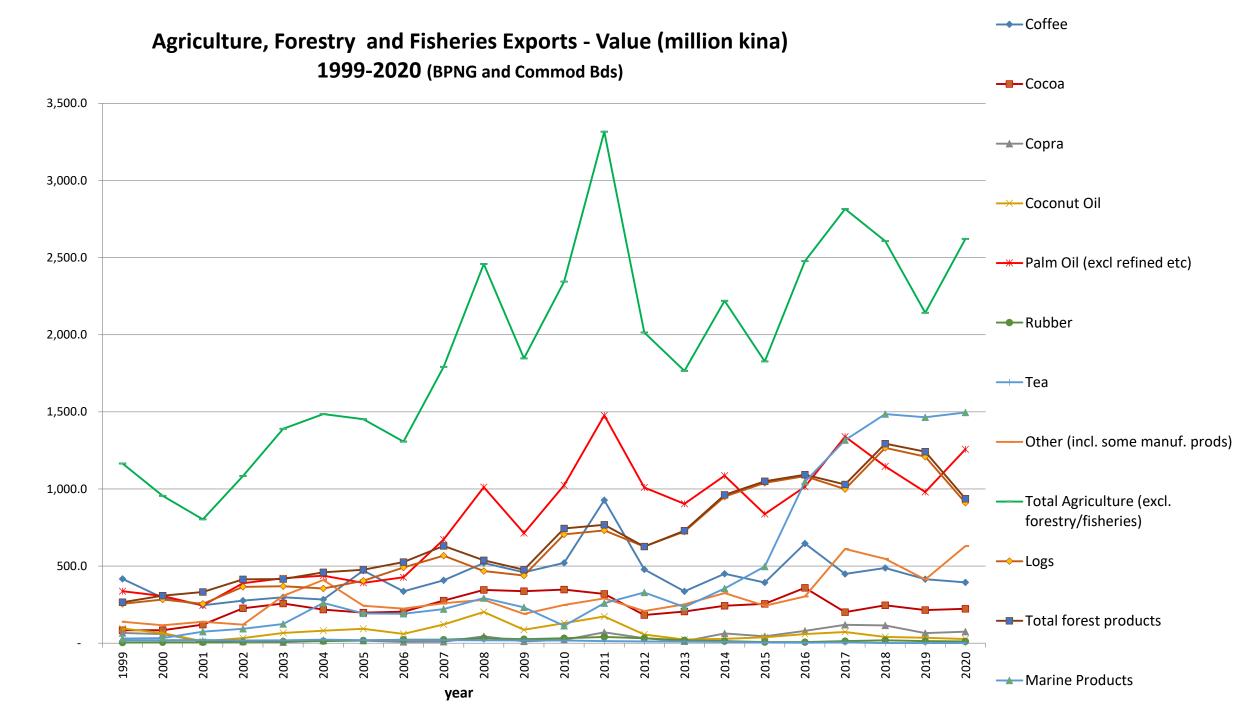
(NSO & Treasury estimates and 2021 projection)



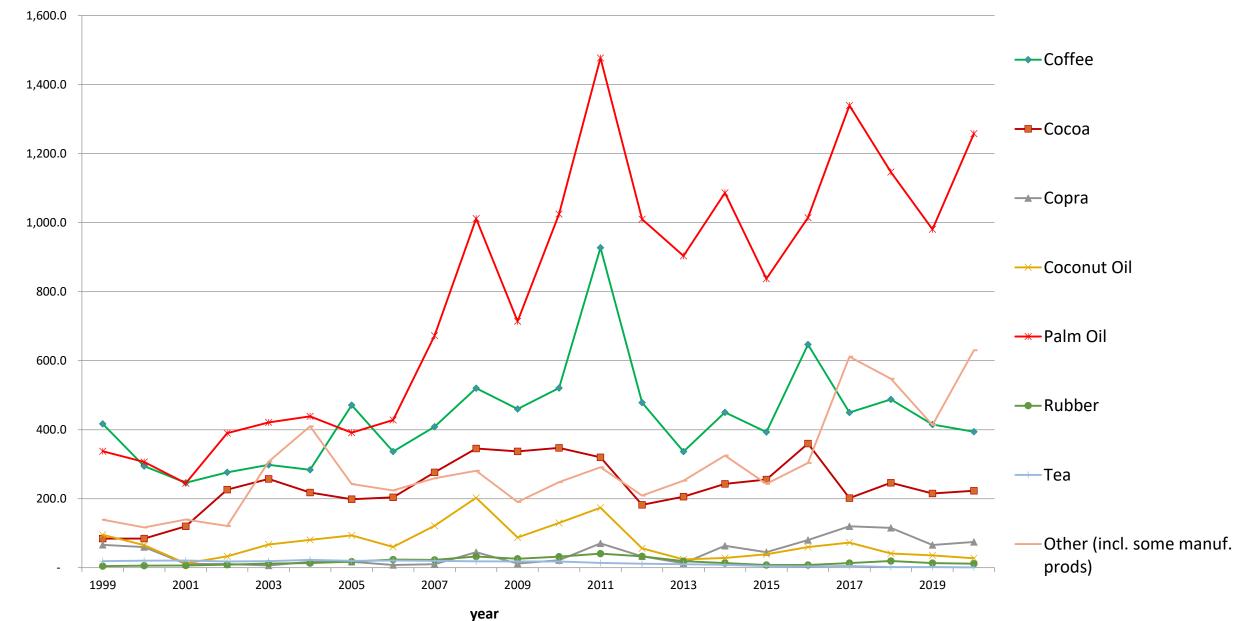
GNI per Capita - Current US \$ 

1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016



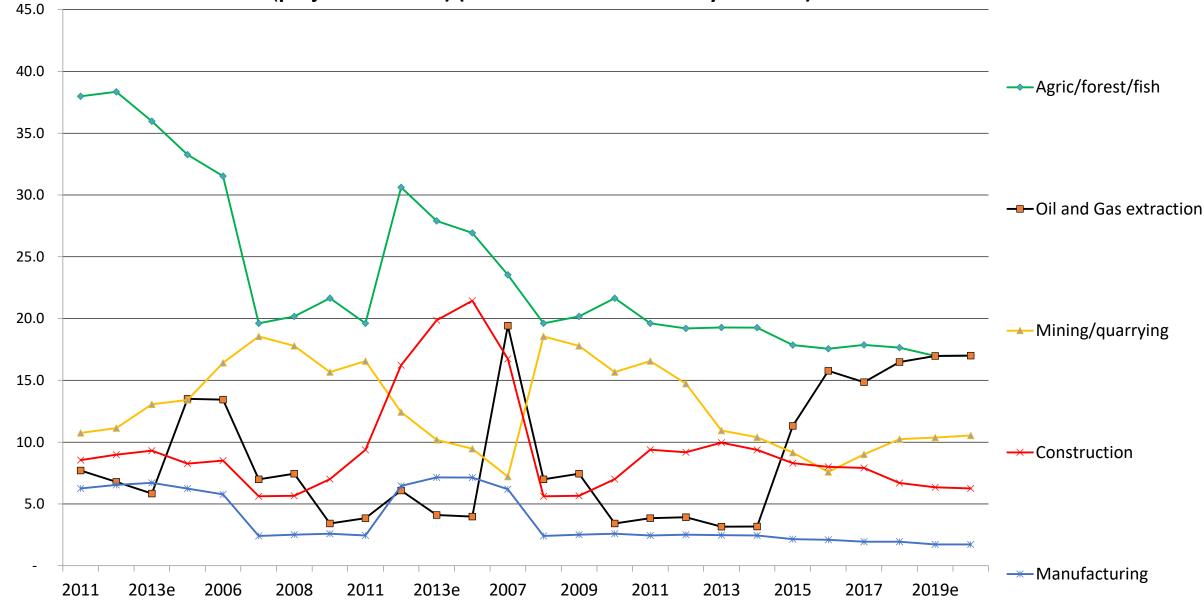


#### Agricultural Export Crops (incl. some manufactured prods and vanilla -FOB million kina) 1999-2020p (BPNG and commod bds)



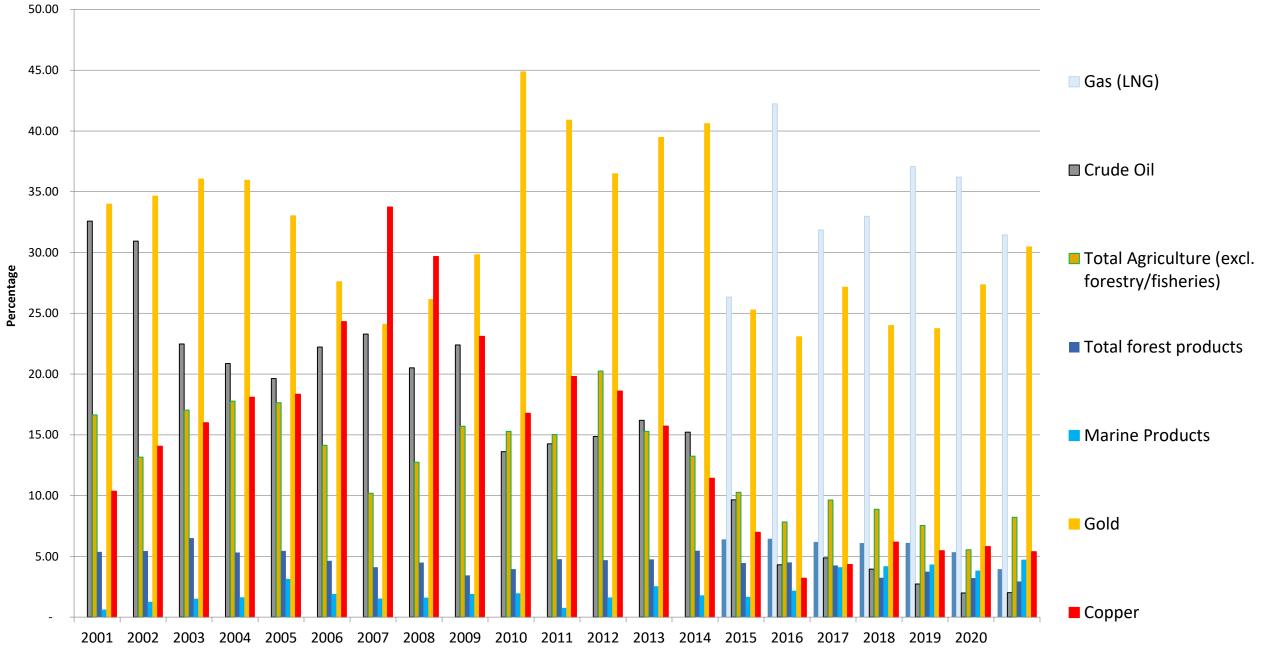
#### Percentage of GDP by Economic Activity- percentage

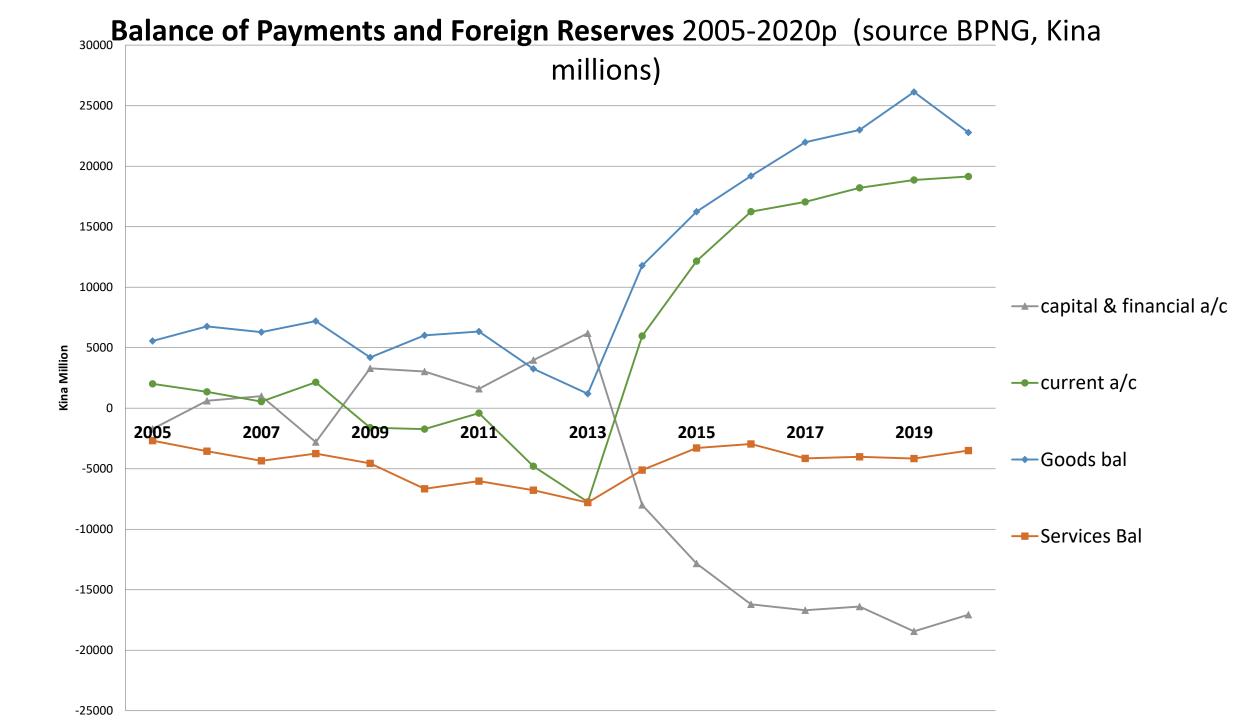
(projections 2021) (source: NSO and Treasury forecast)



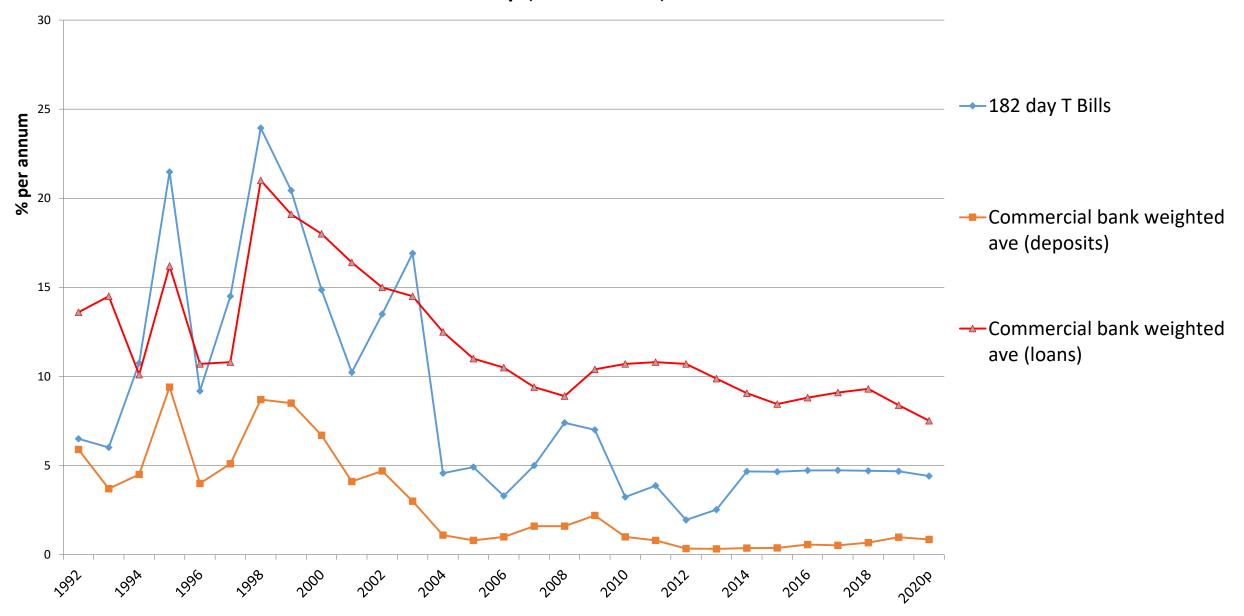
% of Total PNG Exports - by Value 2001-2021p(BPNG) -

Condensate

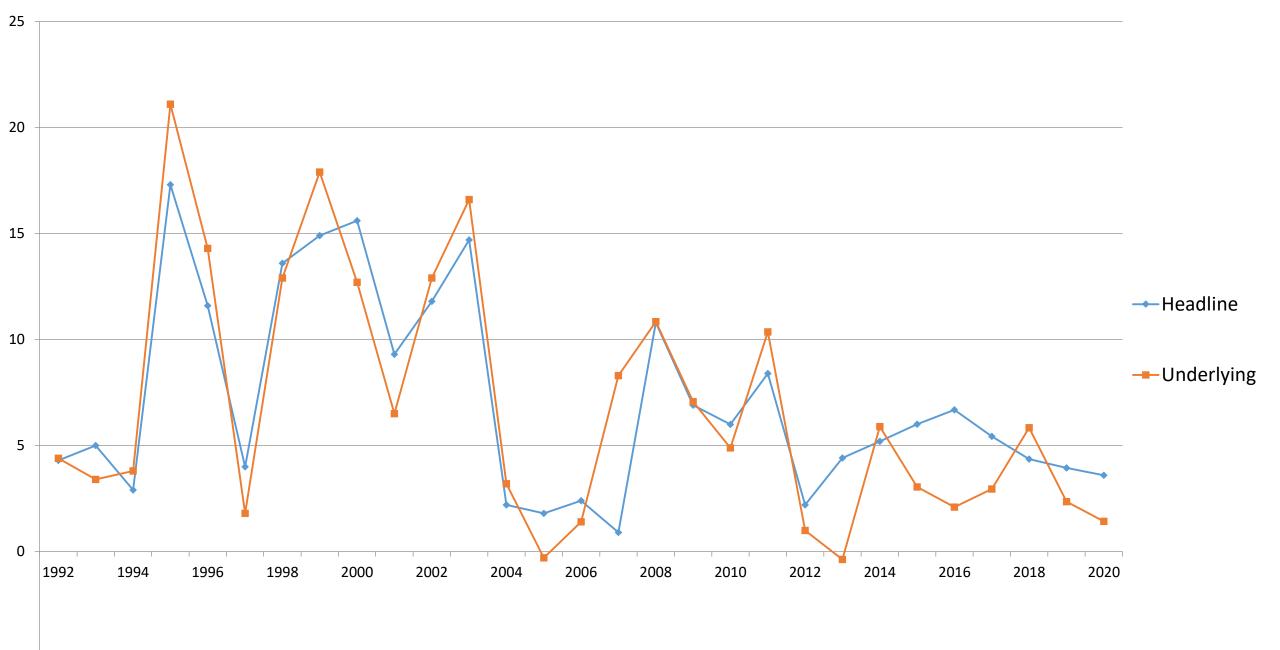




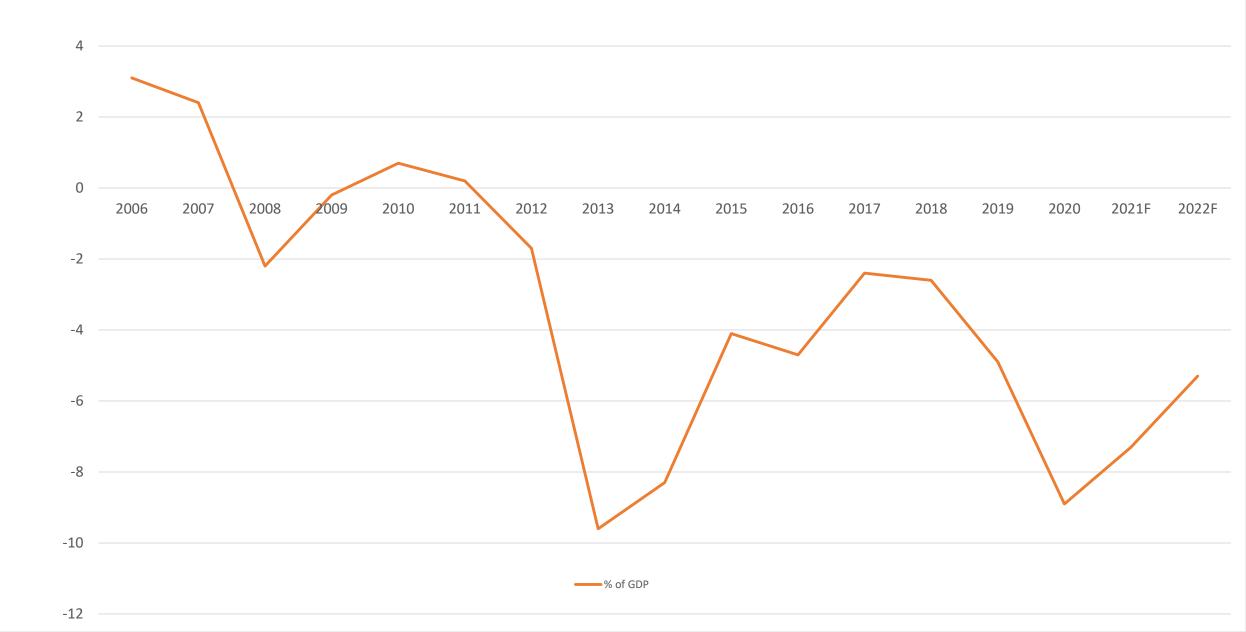
#### Interest Rates 1992-2020p (source BPNG)



## Inflation - CPI 1992-2019 forecast (NSO and BPNG forecast - 2013 revised CPI using new basket)

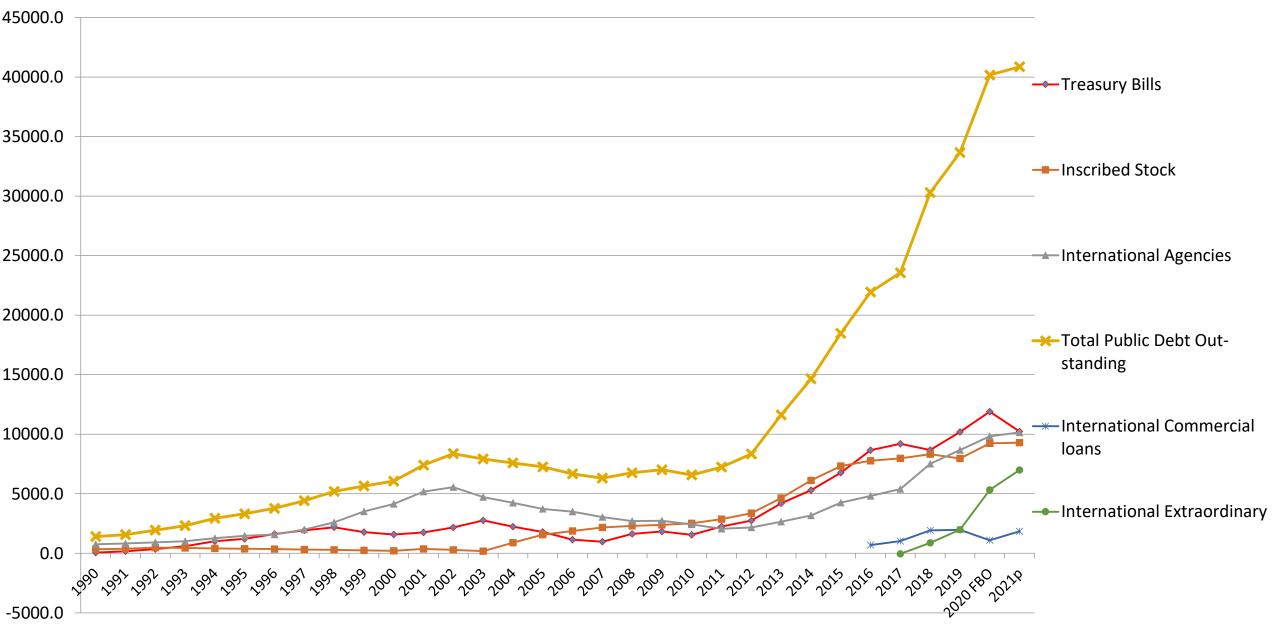


# Central Government Financing % of GDP (2006-2022 - Treasury Forecasts)

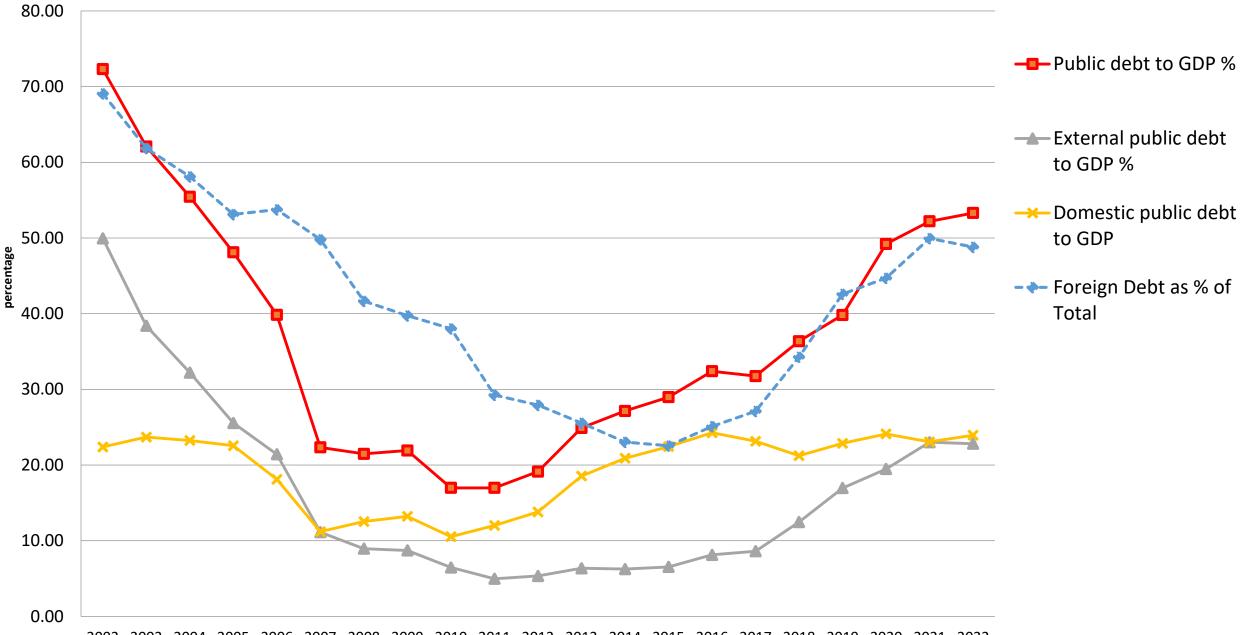


## **Public Debt Outstanding (K million)**

1990- 2021 (BPNG & Treasury) ( 2019, 2020 FBO, 2021 forecast)

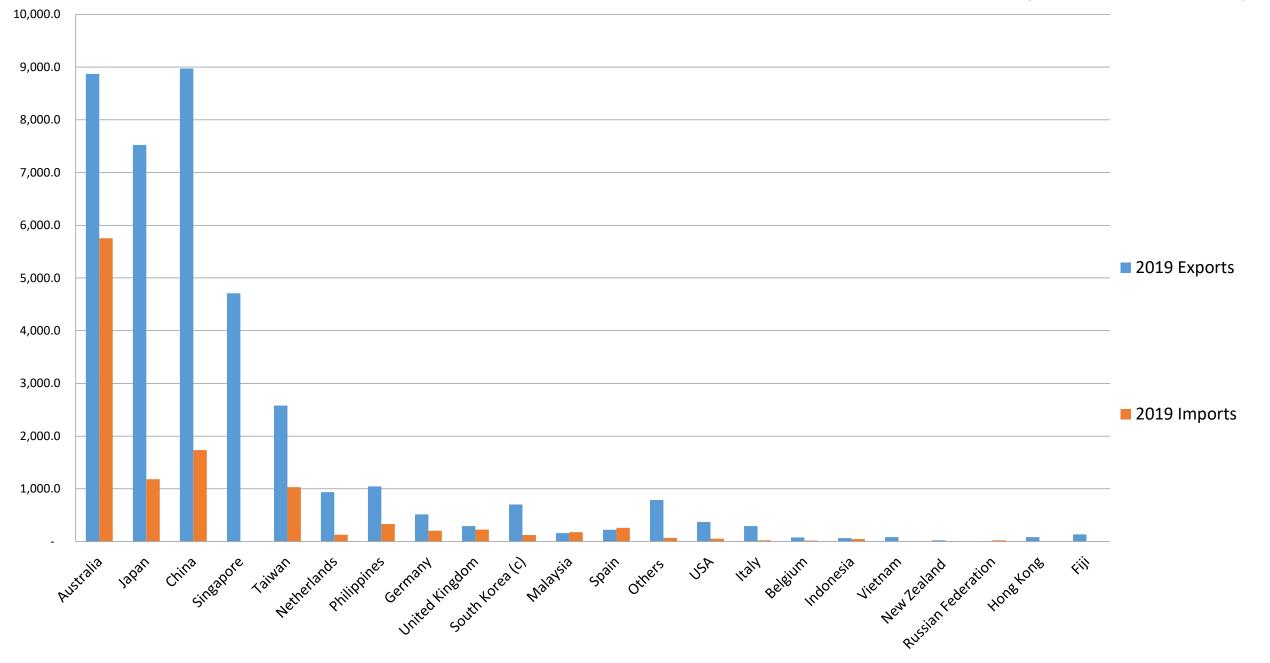


## Debt to GDP % (Treasury and BPNG 2002 - 2022proj)

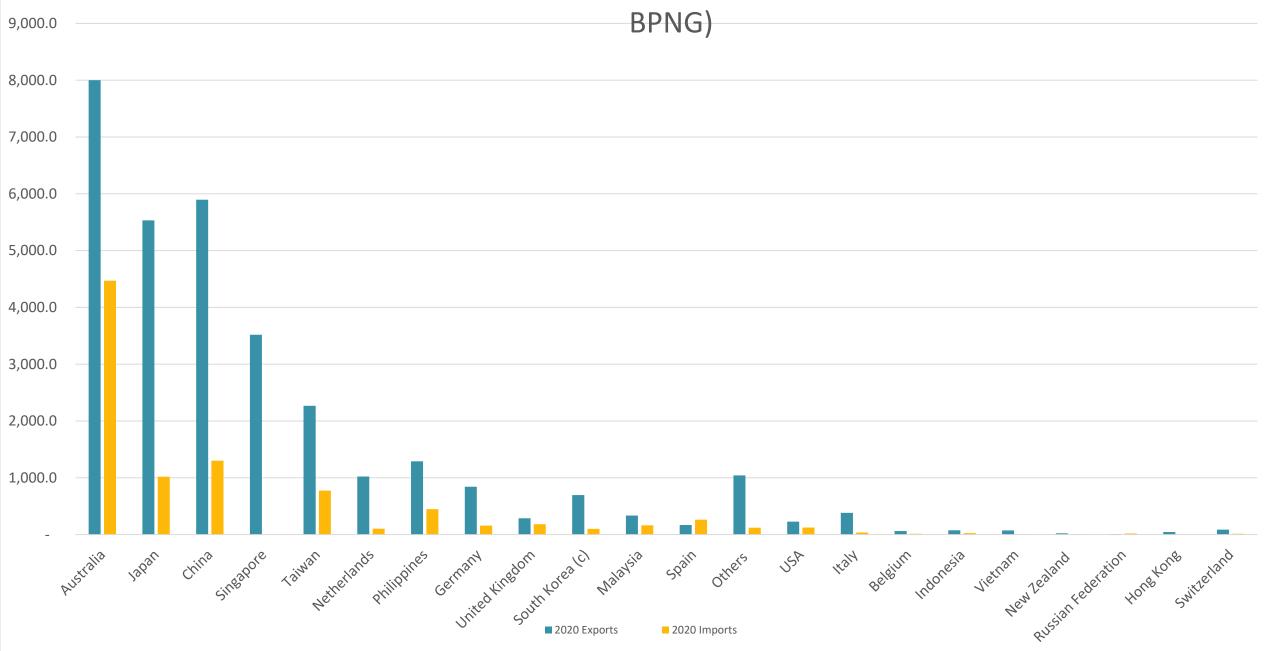


2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022

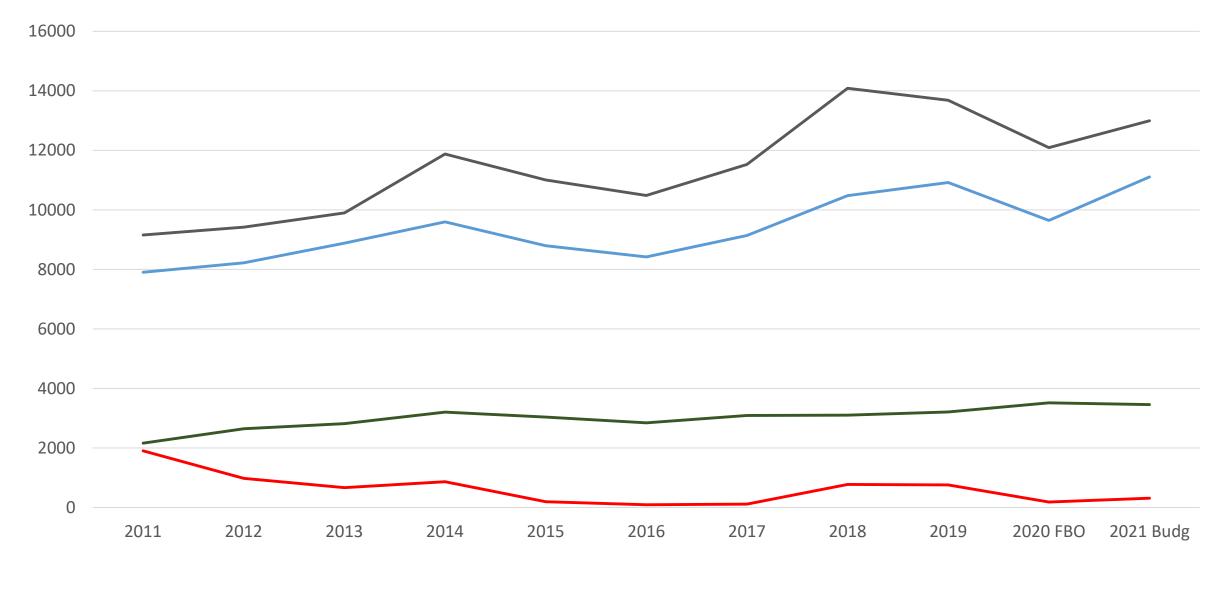
#### Balance of Trade to Main Destinations and Sources - 2019 (Kina mill, BPNG)



#### Balance of Trade to Main Destinations and Sources 2020p - Kina mill (source

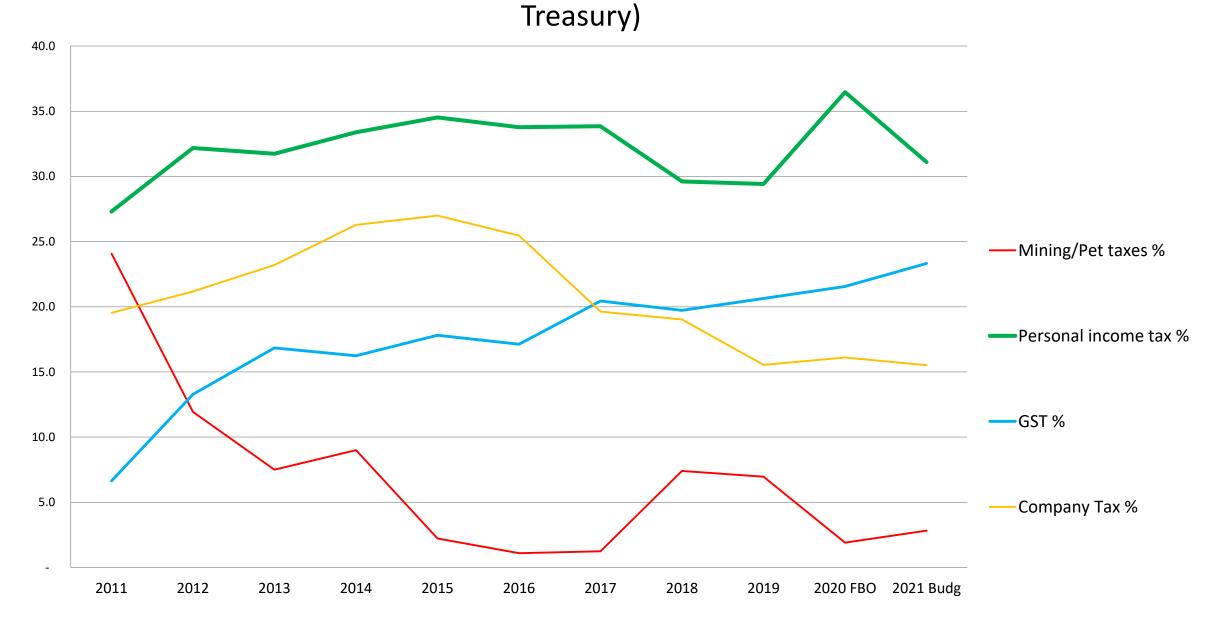


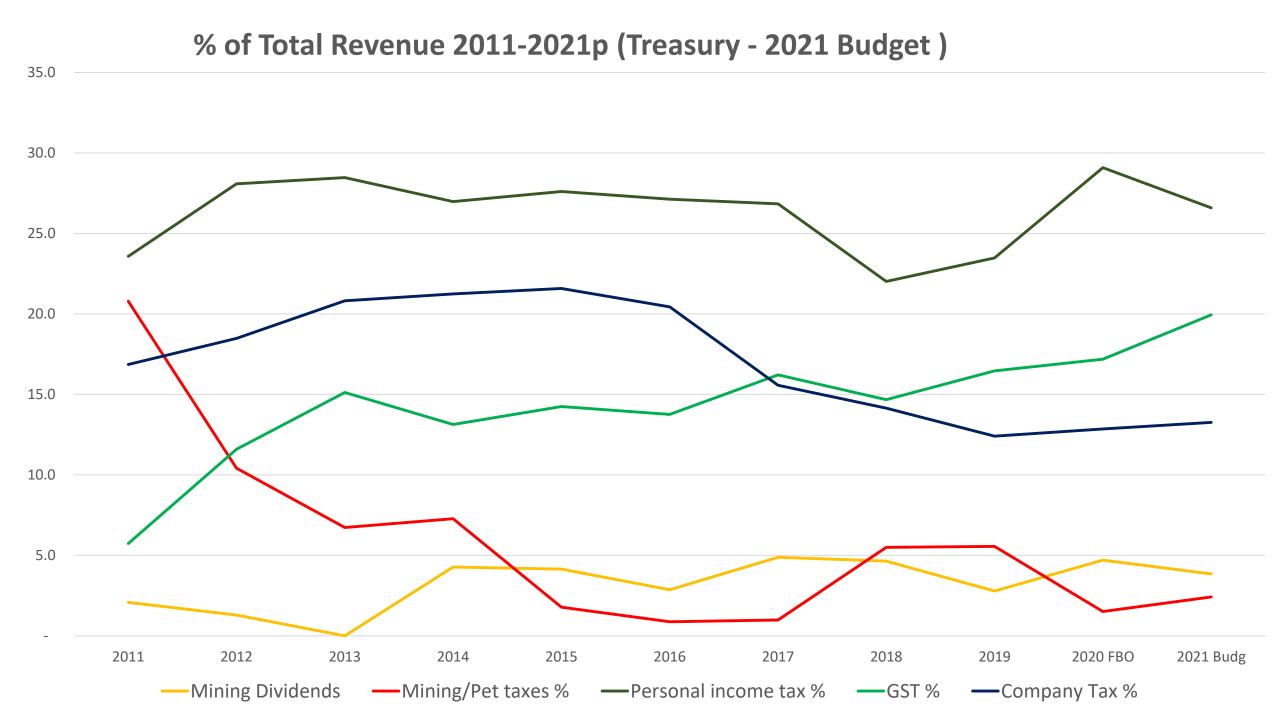
#### Total Revenue and Tax Revenue K mill (Treasury 2021 Budget)



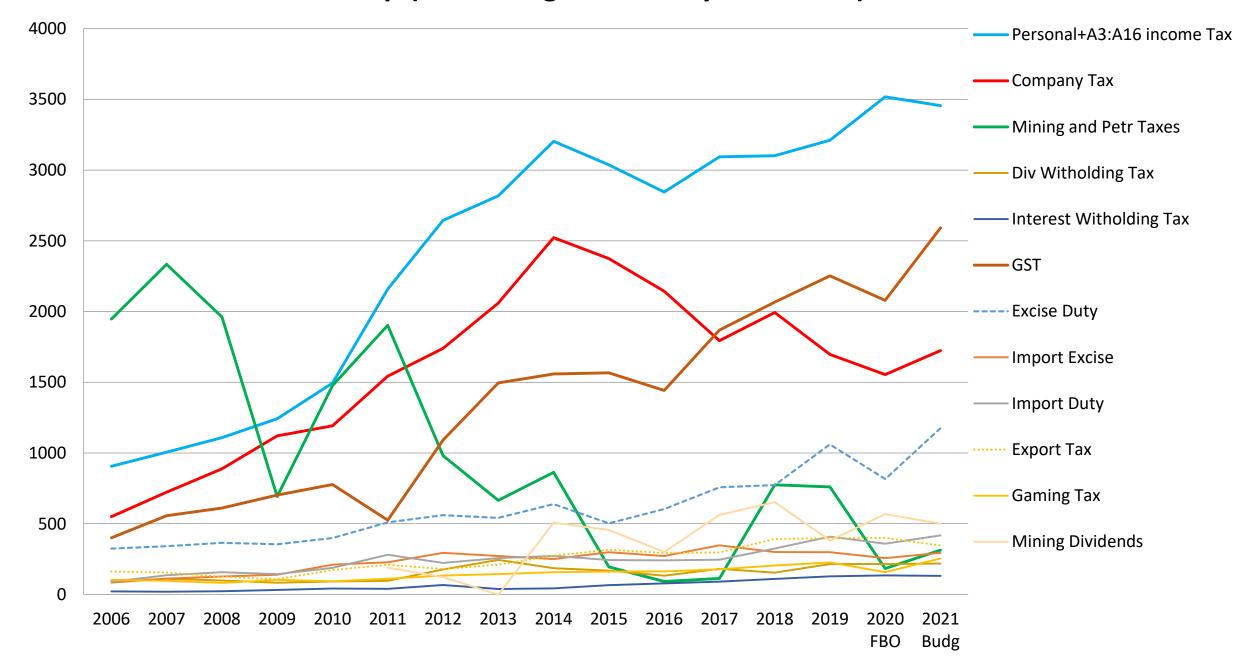
— Total Taxes — Total Revenue — Personal+A3:A16 income Tax — Mining and Petr Taxes

# % of Tax Revenue from different sources 2011-2021p (2021 Budget -

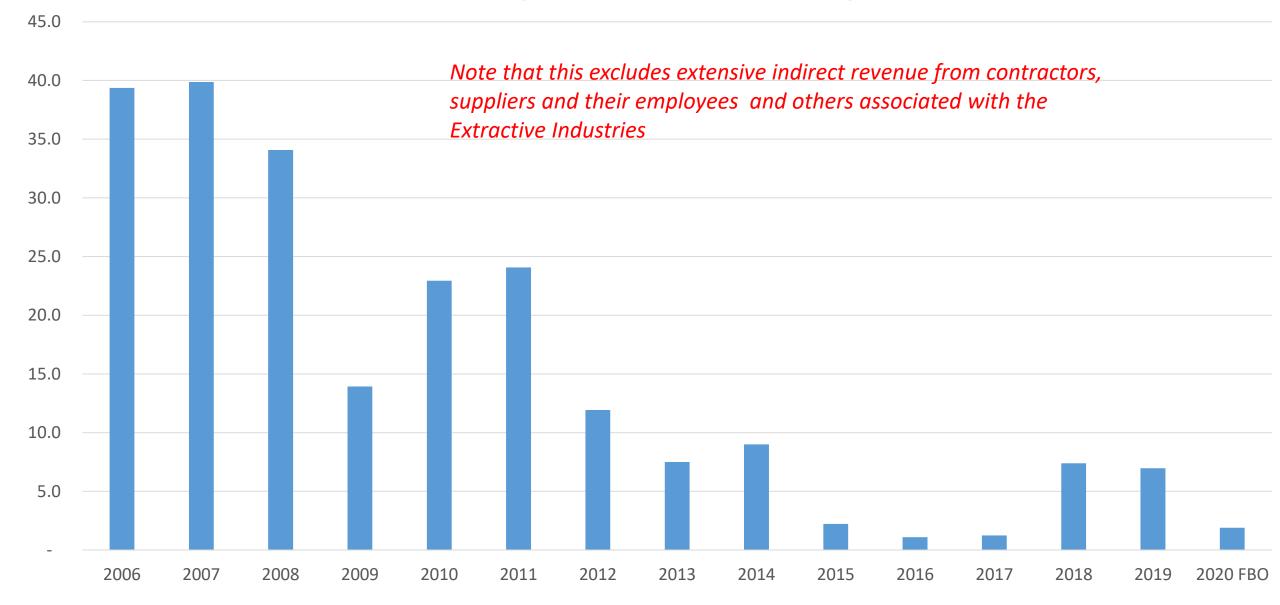




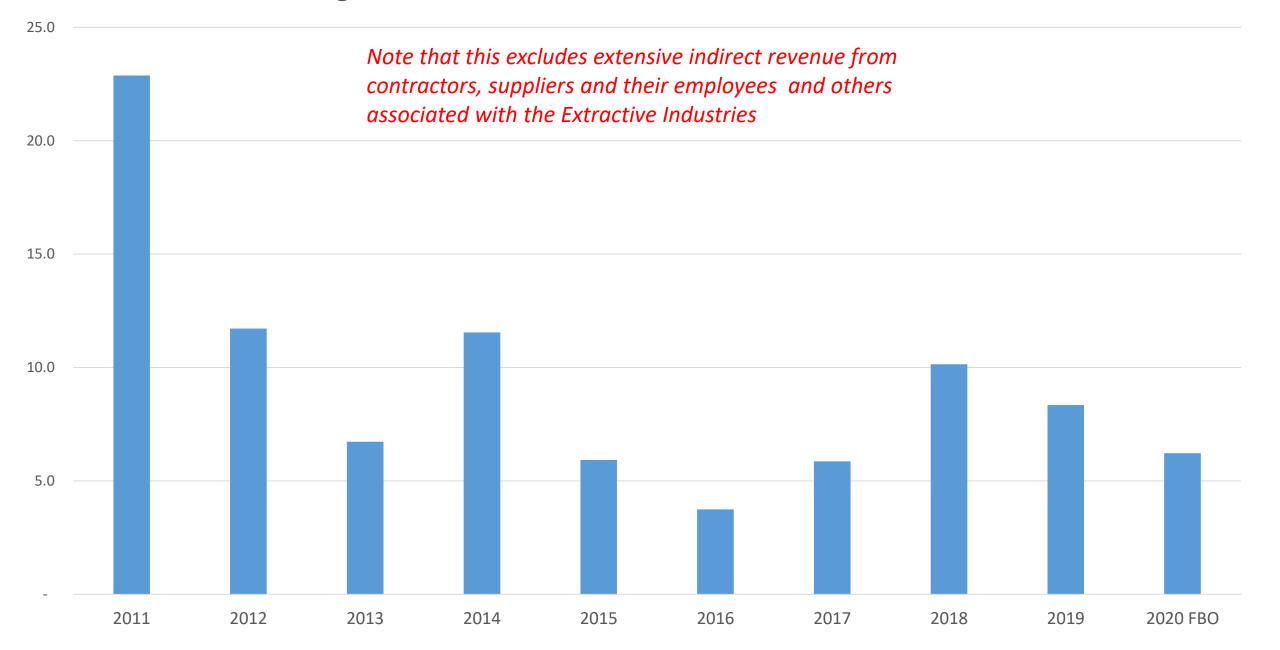
#### Revenue 2011-2021p (2021 Budget -Treasury - K million)



#### Mining/Petroleum taxes as %age of total Tax Revenue



#### Mining/Petroleum Taxes and Dividends % of Total Revenue



- As the proverb goes "we live in uncertain times"....
  - The US Chinese Trade War of the last US Administration is now over, and there's now a level of greater international government and private sector cooperation on the bigger issue of our time, namely addressing Climate Change, which requires massive investment in innovation and new technology and applying current and new technology and lifestyles..
  - But, geo-strategic competition continues and seems to grow, with associated risks to the global community and economies, and its certainly includes continued trade, investment and financial competition
  - The recent days of events in Afghanistan show the speed of potential changes and how even the great powers can be left astonished and flat-footed...
  - PNG is a price taker in global markets, and is a small political and economic player (albeit a biodiversity super-power); but it can play a much more effective role in determining its own economic and social outcomes, through better and more transparent resource management, Budget accountability and structural reforms to be more competitive, create greater investment stability and encourage suitable foreign and direct investment, support skills development and economic diversification and value adding...but that requires costs and risks of doing business come down and investors, large and small, feel inclined to take risks and commitment their time and capital

# Thank you, and enjoy the remainder of the Conference