A Reflection of 2021 and Prospects for 2022

The start of 2022 is mirroring many aspects of how 2021 began 2021 worldwide, with new variants of Covid-19 disrupting lives and markets, and particularly travel and tourism, and global rivalries and hostilities still a major global feature. Yet, there are many grounds for some greater optimism at the start of 2022 than a year back.

2021 began with new variants of the virus erupting and spreading worldwide in devastating new waves , including PNG, which had been let off fairly lightly in 2020. 2021, however, also started with optimism over vaccines, which had been developed over remarkably short periods in 2020, thanks particularly to the use of genome sequencing and various other newish technologies, together with a level of international cooperation, at least initially.

2021 also commenced with various commodity prices having recovered somewhat since their lows of 2020, while the arrival of a less erratic US president, less engaged with conspiracy theories and spontaneous tweets to his followers, and better aligned to science and conventional reason, opening opportunities to enhancing global cooperation on key issues from economic and trade woes, to tackling the big issues of the moment and the generation, including the virus and health issues and climate change, while restraining dangerous political and military brinkmanship.

Globally economies and markets picked up around the world in 2021, partly on the back of successful vaccine rollouts, despite the new variants, with even tourism, airline and hospitality industries picking up during the year in those countries with high vaccine access and adoption and new safeguards, like vaccine passports. Economies and trade picked up, albeit creating some major bottlenecks, notably in shipping, with spikes in oil and transport prices and shortages of various products stuck in queues at ports around the world.

PNG was hit worse by Covid in 2021 than 2020, when it had been protected by early border closure and relative isolation from main travel routes. In 2021 the second wave, following major super-spreader events early in the year, caused a surge of cases and sadly deaths, but it was the third wave (seemingly of the more contagious and riskier Delta variant) from late September that really causes case numbers, hospitalisation and deaths to spike across PNG, particularly amongst the unvaccinated. Sadly, while many of PNG's neighbours, including Fiji, had rapidly adopted vaccines, enabling them even to restore their tourism industries, for various reasons, including a barrage of misinformation mostly sourced from overseas, PNG allowed vaccine hesitancy to spread as rapidly as the virus, and even gain an upper hand in many minds. This was a period when so many of PNG's former leaders, and innumerable friends and relatives became severely sick, stretching PNG's already weak health services, and sadly many died directly or from prior conditions.

2021 was forecast to have provided strong growth after the shrinkage of 2020, on the back of wider economic recovery, but also with Porgera's expected restoration and other delayed major projects being rolled out. Some progress has been made towards addressing the situation at Porgera, but reopening a major mine, with multiple players and agreements, apart from restoration work, is a big task requiring considerable determination and cooperation. It's now forecast by Government to be reopened in April 2022, but most observers consider that highly optimistic. With its direct and indirect impact on thousands of livelihoods, revenue, foreign exchange and indirect impact on investor confidence, Porgera's 2020 closure provides a stark reminder of the consequences of hasty or ill-advised decisions. Some other major projects have progressed in preparation, with sticking points partly addressed, and some may commence making some impact by the end of 2022, at least in terms of stimulating investor confidence, if progressed smoothly.

At the start of 2022 once again we have a new and highly virulent Covid variant spreading rapidly across the globe, and inevitable reaching and impacting PNG, if not here already. It certainly adds uncertainty, and disappointment to all eager to emerge from the two years of the pandemic, travel restrictions and lockdowns. The good news may be that it may prove milder, although this remains uncertain, but the WHO chief has given (uncharacteristic) optimistic indications that we should emerge from the grips of Covid in 2022, assuming strong vaccine equity and adoption across the world. We can only hope that he's right.

At the end of 2021 prices for many commodities had really strengthened, beyond just the short term impact of shortages. This extended from oil, gas and vegetable oils, like palm oil and coconut oil, to metals like copper; gold remains strong, and some other agricultural crops, such as coffee, have rebounded, with forecasts of stronger cocoa prices as well, in the face of likely production shortages from the two main Western African producing countries. This is already flowing through to famers of some crops, and, if holding up, will provide a valuable stimulus to the Highlands economy during the main coffee season, even perhaps countering the disruptive effect on production of the mid-year election. For agriculture, it's more about investment and stimulating increased production, productivity and quality which is required, in food and cash crops and other produce, that's needed, not just shorter term gains from improved prices. That requires the right conditions and longer term market stimulus.

With the resources projects, stronger prices are boosting corporate revenues and foreign exchange earnings, which partly flows into enhanced government revenue, but only after a lag, and dependent upon outstanding company debt and allowances allowed against depreciation and declared past losses. For the LNG, now PNG's largest single export for most years since 2015, there's a further lag as a result of most production being sold on long term contracts, but stronger prices work themselves through in hastening the repayment of debt, until translated into enhanced tax revenue to the state.

Clearly, achieving revenue equity over resource projects is critical for PNG between investors, the State and customary landowners and affected communities. Attractive and stable revenue conditions are critical to attracting investment, but clearly since 2015 revenue to the State has been disappointing, by comparison with earlier years, when mining and oil corporate tax and dividends played a markedly more substantial contribution to revenue than subsequently. Sector revenue started recovering in 2018 and 2019 prior to the pandemic, but were then hit by both the Porgera closure, low oil, gas and copper prices, (despite strong gold prices) but most prices are now relatively strong.

Inflation is a growing issue worldwide, including in PNG. One cannot pump so much capital or purchasing power from the State into the economy, as has occurred across the developed and developing world through the pandemic, whilst seeking to restore economies from the pandemic, or when restoring decrepit public infrastructure, as in the US, without finally triggering some inflation, especially in countries with those limited spare productive capacity. In PNG it's been largely transmitted from higher external prices, including the higher fuel costs and weaker kina, but presumably also from high domestic borrowing, including some effective printing of money during this period..

PNG's economy grew in 2021, but not at the pace forecast by the Treasury, so by the end of the year, it will still have shrunk by around 2% from the beginning of 2020. For 2022, the forecast, as in 2021, is for a stronger rebound (Treasury estimates 5.4%). The actual outcome will depend partly upon the maddening virus and how we (authorities and the public) respond to it this year, and partly upon global market conditions, and whether they continue to improve steadily, or whether health, global tensions and other factors disrupt global outcomes. It also depends heavily upon how the PNG authorities navigate the economy through this sensitive period with an election mid-year; whether, the current and incoming government provide positive and stable conditions for current and would be investors, large and small, who are the ones who decide whether to commit their money, time and effort, into new business activities, new investments and job creating activities, whether mega-projects or small household ventures. Sound and stable policies are critical for investment, together with providing reliable public infrastructure and other public goods, lowering business costs and the environment for open and competitive entry and operation for local and compliant foreign direct business. Certainly, the reopening of the Porgera mine will provide both a significant stimulus, but also be a yardstick for investment in the resources sector.

2021 saw limited international cooperation to counter the spate of coups, including the Taliban, Burmese and various African military takeovers of power, and widespread abuse of human rights, or even of de-escalating tensions in the S China Sea or Ukraine borders. On the other hand, there was firm international cooperation around addressing climate change and making the overdue gear change from the era of power generated by fossil fuels to potentially greener and more sustainable energy sources, as well as addressing other sources of greenhouse gas emissions. The outcomes from the COP26 meeting in Glasgow at the end of 2021 have certainly not gone far enough to meet the pace of change necessary, and there were certainly disappointing laggards, nevertheless, the meeting demonstrated necessary readiness for cooperation, even between countries more readily at loggerheads on other matters.

PNG plays a surprisingly big part on climate change, and stands to gain out of global initiatives, so long as it demonstrates necessary credibility in its response and applies associated mechanisms. Despite being a relatively low emitter of greenhouse gases from households and most industries, PNG provides both an important land and marine sink for carbon, in its forests, mangroves, sea grasses and seas. Extensive clearance of forests over recent years for log exports and land conversion releases major carbon emissions, along with coastal clearance of mangroves and other coastal and maritime disruption. Halting or minimizing extraction, land conversion and disruption from infrastructure projects and other activities, requires participating in recognized global initiatives with credible and verifiable standards, which should provide valuable economic opportunities over future years, as well as contribute to a better future locally and globally.

Major business mergers have been rolled out in 2021, including between one of PNG's largest and longest established companies, Oil Search with Santos, as well as between Digicel and Telstra. Although there's nostalgia for the outgoing companies, the mergers should provide better access to capital and new opportunities to take PNG operations to their next level, fully participating in major forthcoming resource developments and upgrading links between fibre-optic cables and national networks and further rolling out 4G across the country. The regulators should play an important part in ensuring competition prevails, including after the Telikom-BMobile merger, and with the arrival of Vodaphone as a new player. With the planned Kina-Westpac takeover in 2021, the regulator, ICCC barred it on the grounds of potentially limiting competition. Nevertheless, the issue of existing weak competition in the banking and finance sector has not gone away. BSP continues to play a dominant, albeit valued role in the economy. The regulator, FASU, attached to the Central bank, has been keeping it a bit on its toes, in terms of governance, but more serious competition is needed beyond what the other banks, finance and microfinance houses can provide. That would be good for businesses, consumers, but even for BSP itself and the banking sector. But attracting additional players (of needed repute) and capital, requires a positive outlook for PNG's economy, now and beyond the 2022 election, and requires an economy and formal sector employment that is less stagnant than over the past seven years, with diversified investment and not unduly dependent upon a few major resource projects.

This requires that, while some new resource projects proceed, with sound time horizons and benefit sharing, every effort is made to encourage the positive impact of these relatively enclave activities on the wider economy and restraining potential negative (or resource curse) effects, where they distort the economy and undermine prospects for diversification, as has occurred in PNG in the past and in various (but not all) resource richer countries, such as across Africa.

There is much concern over PNG's growing level of public debt to GDP. The government has been financing a large slice of its annual budget since 2011 from public borrowing, from domestic and international sources. Substantial public borrowing is widely (not universally) considered sound to stimulate and sustain the economy through troughs in the economic cycle, as well as for needed restoration or upgrade of essential public infrastructure, such as transport facilities and power and upgrading health and education capacity, so long as borrowing is with sustainable level in a growing economy, and so long as the funds are used cost effectively and accountably. Wasting public funds, whether provided from loans or from PNG's small tax base, in unnecessary status projects or over-priced public goods is generally unwise, although during times of crises, such as the pandemic, major public expenditure on enhanced welfare and business support has been considered critical across the world, even if restrained in PNG by limited capacity to target such funds effectively or implement. A positive aspect over the past few years has been the access to relative low interest international loans, replacing costlier international commercial borrowing, although the high level of domestic debt and interest rates, must be restrained, as debt servicing costs have been increasingly displacing other critical expenditure in the annual budget and ultimately needs to be repaid. Constraint on SOE borrowing will also be critical to limit growing contingent liabilities, especially from higher cost sources, even where funding (e.g. from some EXIM banks) may be relatively easy to access, or for unsuitable or over-priced capital projects. Likewise, ensuring SOEs, like Kumul Petroleum or authorities, like NFA, promptly pass on and don't accumulate major slices of state revenue for parallel budgets, will be critical.

We enter this election year with considerable uncertainty. Health, economic, educational and employment, political and geo-political, governance and environmental uncertainty looking forward. 2017 was the worst conducted election on record, with very extensive abuse, few controls and ensuing violence and deaths in various centres. There was an opportunity following the election to address many of the underlying issues, including the inequitably constituencies, but this was largely foregone. Clearly, electoral and political reform and accountability is challenging, having seen the system increasingly controlled by money, access to weaponry and capacity to influence the final election roll, and where swathes of voters were increasingly denied the opportunity to cast a vote legitimately; there was also the subsequent malpractice in various counting rooms, and gross luring of parties and winning candidates.

This year preparation and capacity for managing the election is not well advanced, and many sitting candidates have accumulated war chests of SIP funds over recent years. Sound and accountable political processes, stronger governance and accountability, the economy and livelihood opportunities and developing PNG as a safe and healthy place for women, children and men to grow up with sound prospects for the future, are all deeply inter-connected. Rigged elections, voter buying, use of threats, force and manipulation, lack of attention to GBV and sorcery accusation-related violence, corruption, including in unneeded and status projects and over-priced public procurement, all undermine sustainable investment and the economic, social, environmental and political prospects for the country. This affects, particularly, the growing number of young people, eagerly looking forward to rosy opportunities in education and their subsequent lives and careers. Hopefully, the authorities, candidates and country as whole will recognize the need for a much more transparent and credible electoral process in 2022, than in 2017, with enhanced outcomes for the whole of PNG. Hopefully also, the global leaders will recognize in 2022 the benefits of international cooperation on key health, welfare, environmental, economic and livelihood, peace and security issues, over their narrower personal, party or nationalistic interests.

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