



PUBLIC POLICY BLOG

Papua New Guinea's high public debt signals alarm bells of concern

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Amidst the recent economic crisis in Sri Lanka, a caution needs to be undertaken by Government of Papua New Guinea (GoPNG) regarding increasing public debt. It is important to note that public debt or commonly referred to as sovereign debt is essentially how much a country owes to lenders. Predominantly, public debt is derived from governments insatiable appetite to spend more than they receive from tax revenues over time. In order to cover for the resulting deficits in the national budgets, successive governments prefer continuous borrowings over cutting back on public expenditures, which, in turn raises the level of public debts. However, the higher the public debts, the greater the risks borne by the lenders which are then reflected in high loan interest rates. Ultimately, the welfare of all citizens may be compromised as bulk of government public spending intended to improve basic services may be utilised for loan repayments.

This article intends to sound the alarm bells for GoPNG to be cautious in the increase on the level of public debt. It hopes to inspire Papua New Guineans to understand key economic indicators that are important to assess the future prospects of the country. Further, the article will draw some lessons PNG can learn from the current economic turmoil in Sri Lanka in relation to high public debt.

What is the level of public debt for PNG?

[According to the Final Budget Outcome Report for end of the financial year 2021, Papua New Guinea owes creditors a total of approximately K48 billion.](#) The report further disaggregates the debt total into domestic and external debt components of which amounts to K25.3 billion and K22.2 billion respectively. However, what is of concern is the trajectory in the level of public debt in the last 16 years. [In 2006, the public debt was K6.7 billion](#) and as of 2021 it has approached K48 billion, this is a substantial increase of 616 percent.

What is the Debt to Gross Domestic Product (GDP) Ratio for PNG?

Furthermore, the aforementioned level of public debt is a concern if one would use the [Debt to Gross Domestic Product Ratio](#) (Debt-to GDP-Ratio) as an indicator to compare what the country owes with its ability to produce. In this regard, [Gross Domestic Product](#) (GDP) is an economic indicator commonly used to reflect the total monetary value of goods and services produced in a country usually in a year. Hence, the ratio or percentage of Debt to GDP in other words provides a comparison on the share of national debt to total revenue for the country. For instance, as of 2021, the PNG's

nominal GDP (which takes into consideration the current prices-inflation) was [approximately K93 billion](#). With the public debt level at K48 billion, this means that [PNG's Debt to GDP Ratio is 51.6 percent](#). In other words, what PNG currently owes to creditors is equal to half of the country's total revenue in 2021.

Can legislation control excessive borrowing? Fiscal Responsibility Act 2006

PNG like some countries have legislated public debt ceilings to control politicians from borrowing excessively. In PNG's case, this is done through the Fiscal Responsibility Act (FRA) 2006. However, its effectiveness should be under consideration. This is because the prescribed ceilings in FRA which was initially set at 30 percent of GDP in 2006 has been lifted several times over the last 16 years. [For instance, from 30 percent it was increased to 35 percent in 2017, 40 percent in 2019, and 45 to 60 percent in 2020](#). Publications through the World Bank has cautioned that a critical level of concern is when the [Debt-to-GDP ratio is above 77 percent](#).

Lessons PNG can learn from Sri Lanka's recent economic turmoil

After 74 years of independence, Sri Lanka is confronted with the worst debt and economic crisis. [As of 2018, its Debt to GDP ratio increased from 91 percent to 119 percent in 2021](#). This resulted in shortages of essentials which culminated into a civil unrest and the unceremonious removal of the former president. [In addition to the unfavourable external shocks such as the global impact of Covid-19 pandemic and the Russian and Ukraine](#)

[War, the blow out in Sri Lanka's public debt predominantly resulted from the country's economic mismanagement](#). In this regard, by and large the proceeds from persistent borrowings over time were invested inappropriately on capital investments with low economic returns. Furthermore, high public debt resulted in an increase in external debt servicing. Hence funds desperately needed for development and economic stability were absorbed in repaying high public debts.

Conclusion

As PNG prepares to celebrate 50 years of independence in 2025, the looming level of public debt of K50 billion signals alarm bells of concern. The Debt to GDP ratio of 51.6 percent indicates the share of what PNG owes is distressingly equal to half of PNG's total revenue in 2021. Legislations intended to control excessive borrowings from successive governments have not prevented variations in the public debt ceilings which are approaching unsustainable levels. The economic turmoil in Sri Lanka should be a warning to governments of emerging and developing economies including PNG to reduce high public debt and prudently manage its economy.

About the Author

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