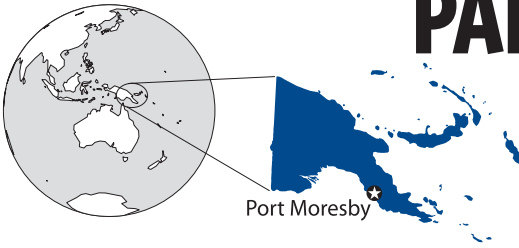


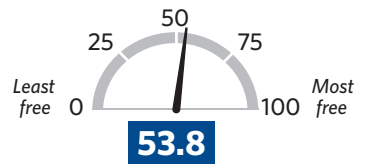
# PAPUA NEW GUINEA



World Rank: **128**

Regional Rank: **26**

## Economic Freedom Score



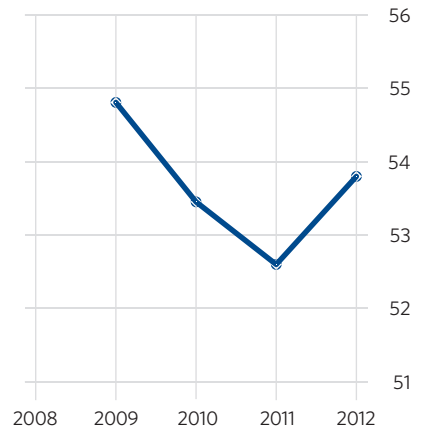
**P**apua New Guinea's economic freedom score is 53.8, making its economy the 128th freest in the 2012 *Index*. Its score is 1.2 points better than last year, primarily because of a significant improvement in the control of government spending. Papua New Guinea is ranked 26th out of 41 countries in the Asia-Pacific region, and its overall score is lower than the world and regional averages.

Papua New Guinea is seemingly mired in the "mostly unfree" category in the *Index*. The economy remains divided between a formal sector based on exports of natural resources and a large informal sector that relies on subsistence farming and other small-scale economic activity. The fragility of prospects for long-term economic development is reflected in the very low score for property rights and a level of corruption that undermines the rule of law. Much-needed private-sector development is also held back by regulatory deficiencies and the lack of institutionalization of open-market policies.

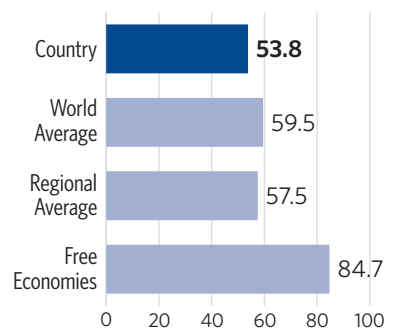
The effectiveness of government remains low, although the management of public finance has improved notably in recent years. Over the past decade, public debt has dropped from about 70 percent of GDP to below 30 percent of GDP.

**BACKGROUND:** Papua New Guinea is a parliamentary democracy with an extraordinarily diverse population of nearly 7 million people speaking over 860 different languages. President Michael Somare's coalition government, the first to serve out a complete term since independence, will face elections in 2012. The formal economy is dominated by the mining of rich deposits of gold, copper, oil, and natural gas, but the vast majority of Papua New Guinea's people depend on subsistence hunting or agriculture for their livelihood. Between 2007 and 2008, Australia provided US\$300 million worth of foreign aid to Papua New Guinea, making it the country's largest donor. Ongoing problems include political corruption, election irregularities, weak governance, crime, and a lack of capability to respond effectively to natural disasters.

## Freedom Trend



## Country Comparisons



## Quick Facts

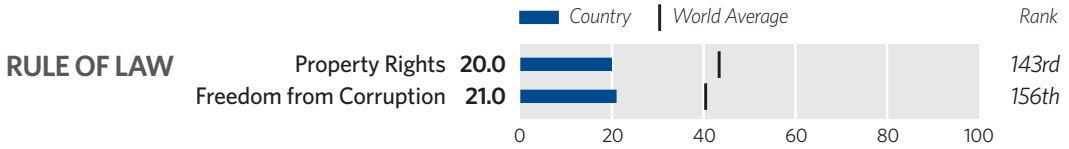
**Population:** 6.5 million  
**GDP (PPP):** \$14.9 billion  
 7.0% growth in 2010  
 5-year compound annual growth 5.7%  
 \$2,300 per capita  
**Unemployment:** 1.8%  
**Inflation (CPI):** 6.6%  
**FDI Inflow:** \$28.9 million  
**Public Debt:** 26.5% of GDP

### How Do We Measure Economic Freedom?

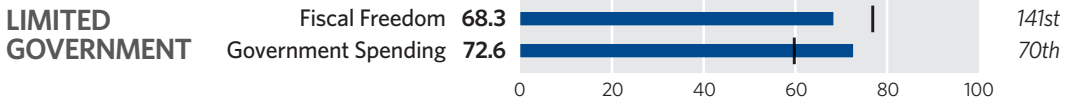
See page 455 for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

2010 data unless otherwise noted.  
 Data compiled as of September 2011.

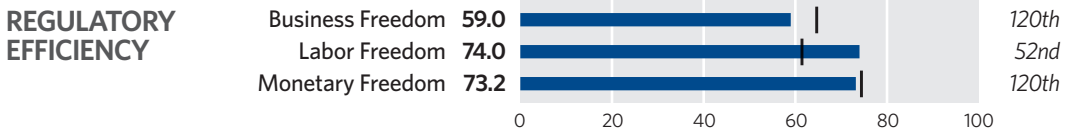
**THE TEN ECONOMIC FREEDOMS**



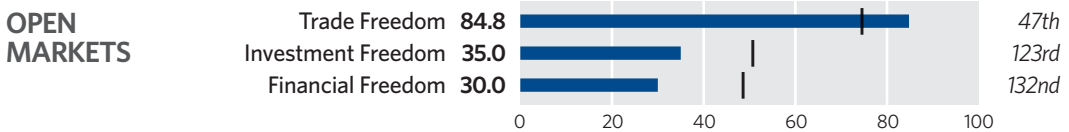
A modern and well-functioning judicial framework is not firmly in place, and land is often held communally. Corruption is a serious problem due to weak public institutions, lack of transparency, and politicization of the bureaucracy. A new prime minister took office in 2011, pledging to establish an independent commission to investigate graft and increase support for the national police force.



The top income tax rate is 42 percent, and the top corporate tax rate is 30 percent. Other taxes include a value-added tax (VAT) and an excise tax, with the overall tax burden amounting to 22.4 percent of total domestic income. Government spending has reached a level equivalent to 30 percent of GDP. The budget balance has recorded a small deficit, and public debt has dropped below 30 percent of total domestic output.



The overall regulatory framework remains poor. Despite some reform efforts, progress toward the structural changes needed to promote entrepreneurial activity has been limited. Private enterprises face numerous and time-consuming bureaucratic hurdles. The formal labor market is not fully developed, and informal labor activity is substantial. Inflation has been high, with prices rising due to the lack of competition.



The trade weighted average tariff rate is 2.6 percent, but lingering non-tariff barriers and poor trade infrastructure add to the cost of trade. Investment-related regulations are non-transparent and inefficient, stifling much-needed growth in new investment. The availability of financial services is inconsistent throughout the economy, and much of the population remains unserved by the formal banking sector.

**Score Changes**

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+2.0	Business Freedom	-1.2	Trade Freedom	-0.6
Freedom from Corruption	0	Government Spending	+9.3	Labor Freedom	+1.6	Investment Freedom	0
				Monetary Freedom	+0.3	Financial Freedom	0