Back to the new normal

Business Barometer Survey 2019

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Back to the new normal

The PwC PNG Business Barometer Survey 2019 continues our series of snapshot surveys aimed at recording the views of the country’s business decision makers on topical issues affecting the country’s business environment. This survey edition focuses on business performance for the first six months of 2019 and the outlook for the rest of 2019. The findings reflect the views of the respondents and not of PwC.

It appears that the business community has generally now adapted to the changes in the economy and markets that have occurred over the past five years. During that time, the annual GDP growth rate has plunged to its lowest level in 15 years (0.3% in 2018), the global commodity supercycle has come to an end, the impacts of the end of the PNG LNG construction phase investment have pushed through the economy and the country has hosted APEC.

Each of these presented a potential major shock to the economy and the government’s fiscal and debt position has been, and continues to be, under strain.

In light of this background, it is pleasing to report that the survey respondents are the most optimistic for revenue and profit growth at any time over the past three years. Expectations of profit growth appear to largely track revenue growth, which could mean that PNG entities have now been through their cost cutting exercises and have optimised and economised where possible. Now that companies have stabilised themselves and acclimatised themselves to the current conditions, their next step looks to be raising productivity, to do more with the same.

This would seem to be an appropriate response for business given that there are still a number of uncertainties and concerns on the horizon, including those surrounding the potential regulatory regime changes in the area of foreign investment.

Business also remains particularly concerned with the lack of liquidity in the foreign exchange market - although recognising that the impact has somewhat lessened in the first half of 2019. While still a critical risk, the fact that it has slipped down the ranking of concerns also points to businesses having adapted where possible.

Having toughed out the recent years and now looking to increase productivity, business is also clear in signalling that they would like to see similar efforts from the government and public sector in terms of increasing productivity and addressing corruption concerns. This heads the list of changes that business feels is necessary to enhance the growth environment.

With a return to a majority of respondents having a positive outlook for 2019, arguably this is back to a normal business environment, with the economy expected to return to more robust growth in 2019/2020 and the prospect of major resource projects inching closer to fruition. A better description may be the new normal, with business coping with an economy that continues to face a number of structural challenges, and a political and regulatory environment that continues to evolve.

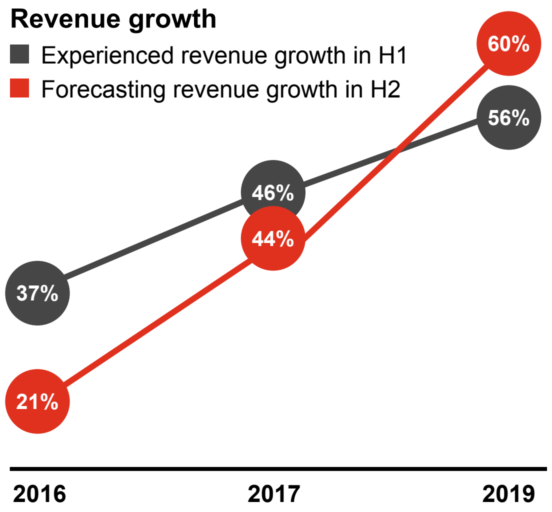
Business confidence improves as revenue and net profit grow in H1 2019

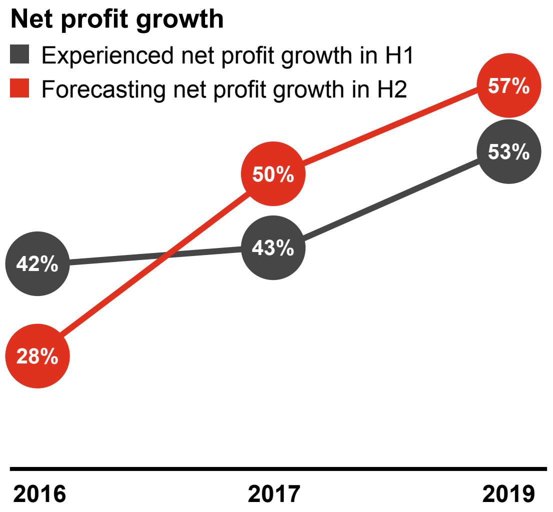
PNG business leaders are most confident about business growth this year compared to the last two years during which the Business Barometer Survey was carried out.

Nearly six out of ten are expecting revenue and net profit to improve in the second half of 2019.

This optimism stems from a generally positive business performance as majority of the respondents have experienced growth in revenue (56%) and in net profit (53%) in the first half of the year.

Business confidence has significantly improved since 2016 when only 21% were expecting revenue growth and only 28% were anticipating net profit growth.





*PwC did not carry out the Business Barometer Survey in 2018.

Foreign currency availability has improved, but still a concern for business

Compared to the first half of 2018, a majority of business leaders (60%) have seen an improvement in the availability of foreign currency this year.

Despite this improvement, foreign currency availability remains a concern for business, with 35% of respondents saying that they are extremely concerned about the impact of foreign currency availability to their organisation's growth prospects.

In 2016 and 2017, the lack of foreign currency was cited as the key barrier to growth, with more than 60% saying that this has adversely impacted their business.

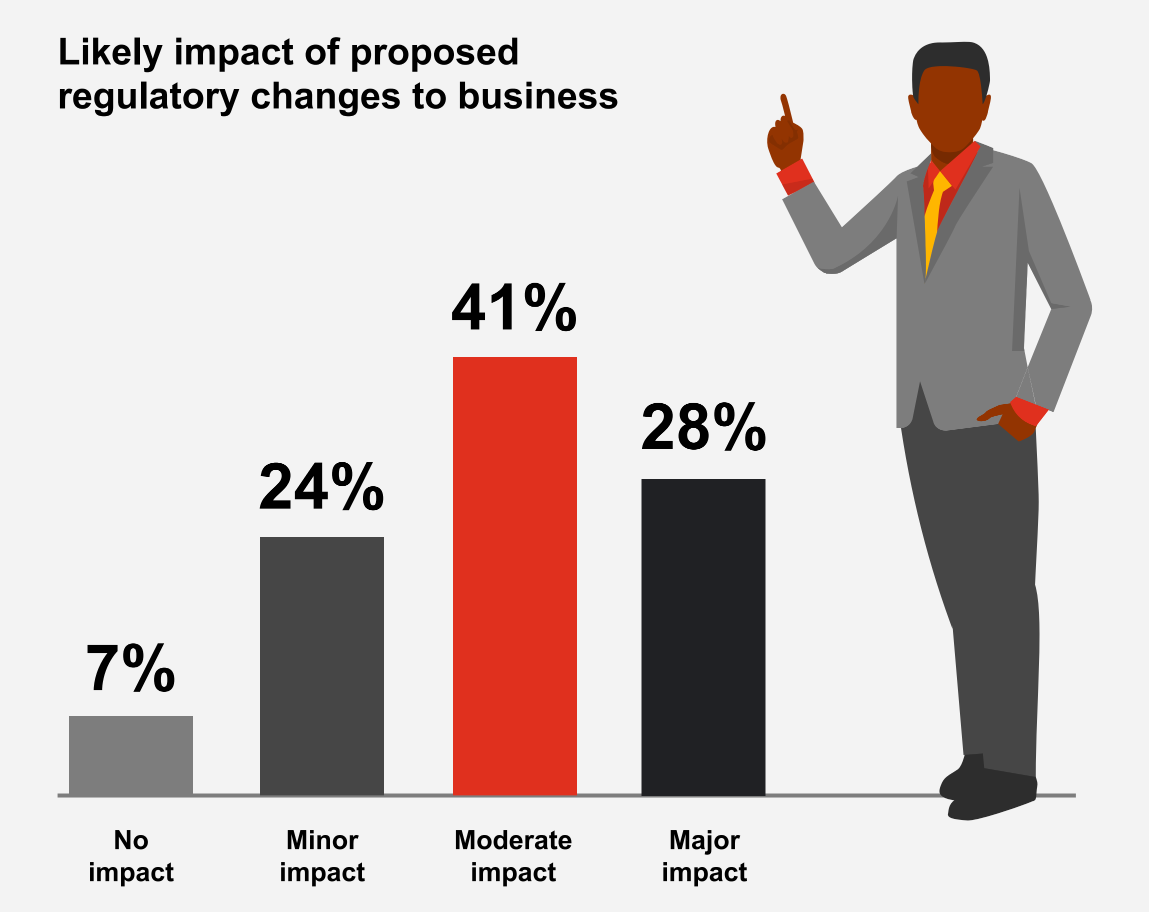
6 out of 10

have seen an improvement in foreign currency availability in H1 2019

Changes to foreign investment regulation concern business leaders

Among the respondents, 33% are moderately concerned about the recent developments in the regulatory environment surrounding foreign investment, which include the now withdrawn Foreign Investment Regulatory Authority (FIRA) Bill, proposed amendments to the IPA Act and changes to work permit rules.

On the other hand, a significant number of respondents (69%) expect that these changes could create moderate to major impact to their organisation.



Law and order is top threat to business growth

This year, a majority (53%) of business leaders see law and order issues as the top threat to their organisation's growth prospects. This is a shift from 2016 and 2017 when respondents said that the lack of foreign currency availability was the primary impediment to business growth.

Law and order concerns are closely followed by corruption at 52%.

Threats to business growth

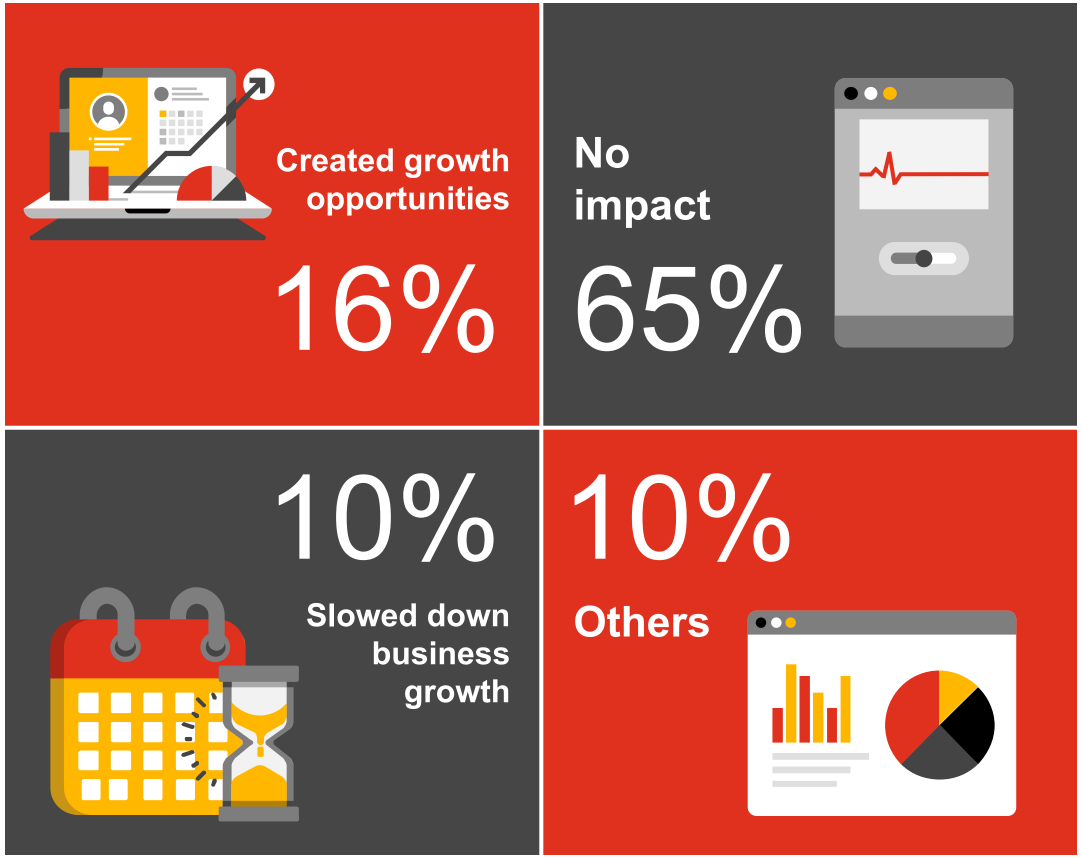
53%	Law and order
52%	Corruption
39%	Lack of quality infrastructure
35%	Lack of foreign currency
34%	Availability of key skills

APEC 2018 has not had an impact on PNG businesses

Sixteen percent of the respondents say that PNG’s hosting of APEC 2018 created growth opportunities for their organisation. However, a significant portion of those surveyed (65%) believe that APEC 2018 has not had an impact on their business.

Despite the sentiment of the majority, some business leaders also expressed that it might be too early, at this point, to determine the impact of APEC 2018 on their business in the future.

Impact of APEC 2018 on business

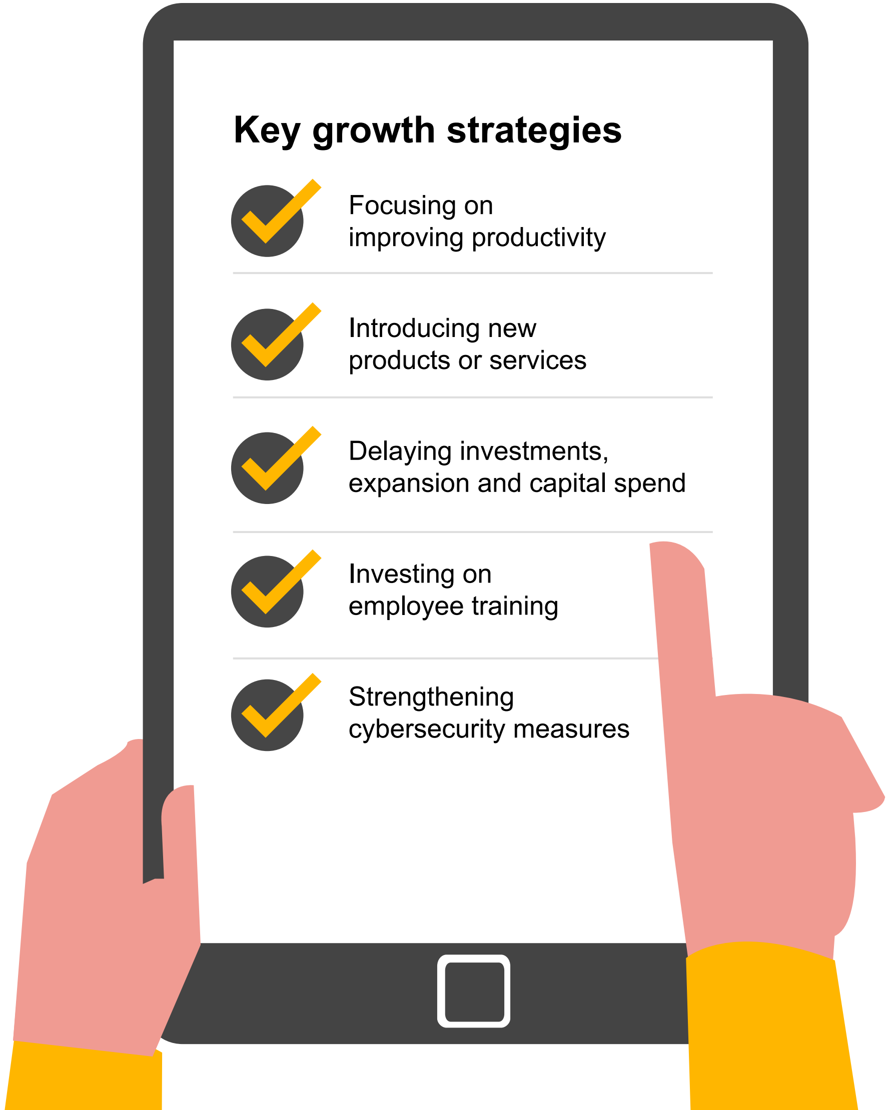


Businesses are looking inside for growth opportunities

Instead of pursuing inorganic growth opportunities, PNG companies are implementing organic growth strategies to drive the business.

The top growth strategy for 37% of the respondents is to improve productivity.

Organic growth strategies are not new to PNG businesses as these have already been in place in recent years. In 2017, business leaders were looking to managing costs, reviewing business processes, improving productivity and driving innovation to boost performance.



Key changes that businesses want to see to create a growth environment remain the same

When asked about the changes they want to see to promote growth and investment, business leaders' responses this year are largely similar to their views in 2017.

Topping the list is increasing productivity and efficiency, and addressing corruption in the public sector. This is closely followed by improved availability of foreign currency. The change in rankings, reflects the small improvement in foreign currency availability that respondents experienced in the first half of 2019.

Political and economic stability also ranked high this year. This may have been heightened at the time of the survey, which coincided with the events leading up to the change in government.

What needs to be done to create a growth environment for businesses

2019	Rank	2017
Increase productivity and efficiency, and address corruption in the public sector	1	Improve fiscal policy and foreign currency regulations
Improve availability of foreign currency	2	Increase capability and efficiency, and address corruption in the public sector
Improve infrastructure	3	Create and implement business friendly legislation and policies
Create a stable political and economic environment	4	Develop and improve the quality of infrastructure
Address law and order issues	5	Reduce the cost of doing business

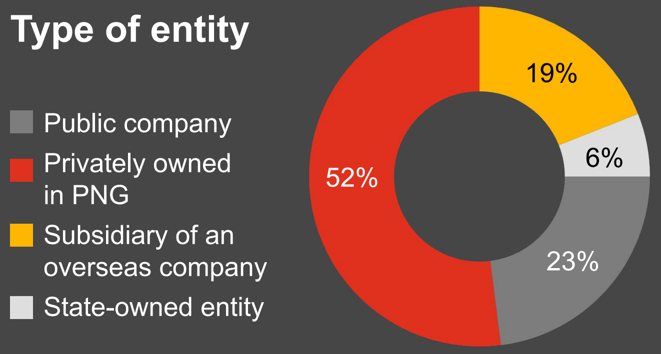
Methodology and respondents

We surveyed 83 business leaders from 17 May to 31 May 2019 to capture their views on topical questions. The questions were both open ended, which required a free text response, as well as multiple choice questions. We sent the survey questionnaire to the respondents using an online survey tool, and we analysed and organised the responses into themes. The responses were gathered on a confidential basis and therefore, were not audited or validated. The findings are the sentiments of those that responded, not of PwC.

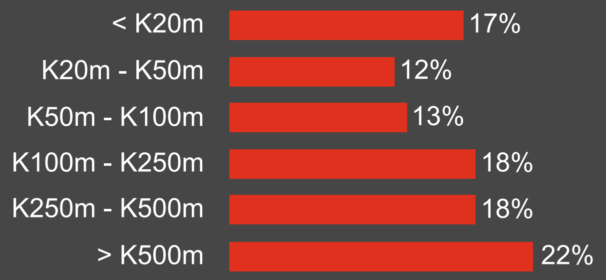
Sectors of economy

- Agriculture or primary production
- Banking
- Construction
- Diversified corporate
- Engineering services
- Insurance, stock broking and asset management
- Manufacturing
- Media and ICT
- Mining
- Non-bank financial institution
- Oil and gas
- Other financial services
- Professional services
- Retail
- Tourism and hospitality
- Transport and logistics

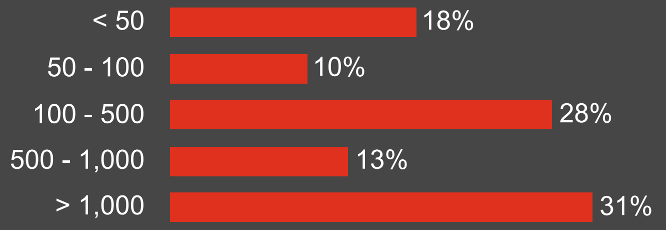
Type of entity



Annual revenue



Employee headcount



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