Papua New Guinea’s economic freedom score is 58.4, making its economy the 101st freest in the 2019 Index. Its overall score has increased by 2.7 points, with a significant increase in fiscal health far surpassing declines in judicial effectiveness and trade freedom. Papua New Guinea is ranked 21st among 43 countries in the Asia–Pacific region, and its overall score is below the regional and world averages.

Exploitation of Papua New Guinea’s extensive natural resource wealth is hindered by daunting topography, property rights issues, and a lack of adequate infrastructure. The government intrudes in many aspects of the economy through state ownership and regulation, not only raising the costs of conducting entrepreneurial activity, but also discouraging broader-based development of the private sector. The private business environment is also held back by an inefficient legal system and the lack of institutionalized open-market policies.

**BACKGROUND:** Formerly administered by Australia, Papua New Guinea became an independent parliamentary democracy in 1975. Its nearly 7.5 million people speak over 840 different languages. Elections held in July 2017 were marred by violence and other electoral problems. The leader of the People’s National Congress, Peter O’Neill, was sworn in for a second term as prime minister in August 2017, but his party’s slimmer parliamentary majority could complicate the implementation of policy. Papua New Guinea is richly endowed with natural resources, and its economy’s small formal sector is focused on exports of such commodities as gold, copper, oil, and natural gas. The vast majority of the population works informally in subsistence agriculture.
PNG law does not permit direct foreign ownership of land, and there are substantial delays in the government’s issuance of long-term leases and in other legal system processes to facilitate the acquisition and disposition of property rights. The judicial framework is underresourced and underdeveloped. Pervasive corruption and nepotism often go unpunished because of bureaucracy, limited financial and human capacity, and lack of political will.

The top individual income tax rate is 42 percent, and the top corporate tax rate is 30 percent. Other taxes include value-added and excise taxes. The overall tax burden equals 12.5 percent of total domestic income. Over the past three years, government spending has amounted to 19.1 percent of the country’s output (GDP), and budget deficits have averaged 3.8 percent of GDP. Public debt is equivalent to 32.6 percent of GDP.

The government intrudes in many aspects of the economy through state ownership and regulation, raising the costs of entrepreneurial activity. Labor regulations are relatively flexible, but the formal labor market is not fully developed. Heavily subsidized state-owned enterprises provide substandard services for power, water, banking, telecommunications, air travel, and seaports, but the government has cancelled a number of fishing subsidies.

The combined value of exports and imports is equal to 61.6 percent of GDP. The average applied tariff rate is relatively low at 2.0 percent, but numerous nontariff barriers undercut trade flows. Foreign investors may not own land, and investment in several other sectors is restricted. Financial intermediation varies across the country, and a large part of the population remains unconnected to the banking system.