

Understanding the dynamics of housing prices in Papua New Guinea

In recent years, the housing market in Papua New Guinea (PNG) has experienced significant growth, especially in urban areas, particularly, Port Moresby and Lae. With housing demand outpacing the supply, the resulting surge in housing prices has raised concerns about the affordability of housing, prompting researchers and policymakers to explore the key factors influencing these dynamics. Past studies in PNG and the Pacific have focused on establishing structural and house-specific factors that influence housing dynamics without assessing the importance of macroeconomic factors. This study aims to bridge the gap in the literature by examining the macroeconomic determinants of housing prices in PNG over the period from 2000 to 2018.

The genesis of increased interest in understanding the macroeconomic determinants of housing prices can be traced back to the Global Financial Crisis (GFC) of 2008–2009. The crisis revealed the intricate link between the housing market and the broader economy, sparking a surge in literature exploring this relationship. In a recent working paper titled *Determinants of housing prices in Papua New Guinea—an ARDL approach*, the research focuses on the Pacific Island Countries (PICs), particularly PNG, where similar investigations are scarce.

To address this gap, the study poses two critical research questions:

What are the key macroeconomic factors influencing housing prices in PNG?

Is there a relationship between monetary policy and housing prices?

The researchers employ quarterly data from 2000 to 2018 and the Autoregressive Distributed Lag Model (ARDL) to unravel the short and long-term macroeconomic factors affecting housing prices in PNG. The findings shed light on various aspects of the housing market and its interactions with the broader economic landscape, revealing that factors such as real GDP, mortgage loans, and the nominal money supply significantly influence housing prices in the long run. Economic growth, reflected in real GDP, exerts a positive impact on housing prices, aligning with theoretical expectations. The availability of mortgage loans also plays a crucial role, inducing higher demand for houses. In addition, large shocks to the economy such as the construction of mineral and petroleum resource projects have huge implications on housing demand and prices as reflected by the recent impact of the construction of the PNG LNG project on the housing market in PNG.

The study also uncovers a nuanced relationship between monetary policy and housing prices. While the monetary policy rate shows limited influence on housing prices, the nominal money supply exhibits a negative impact in the short run. The findings suggest that monetary policy can indirectly influence housing prices, albeit with potential inflationary implications.

Although the research focused on the demand side, it also highlighted the existing challenges on the supply side, such as limited state-owned land, high construction costs, and credit limitations for property developers, which contribute to the upward pressure on housing prices in PNG. Government initiatives, including housing subsidy programs and private-sector involvement, aimed at addressing these challenges have faced hurdles.

Conclusion and policy implications

In conclusion, the study emphasizes the need for a holistic approach to addressing the existing issue of high housing prices and affordability in PNG. On the policy front, monetary policy has a muted impact on changes in housing prices owing largely to the weak policy transmission mechanism. However, since mortgage lending affects housing prices, other policy tools such as macro prudential policy tools can be used to control mortgage lending to influence housing prices. Beyond macroeconomic policies, the study re-emphasizes the need for structural and industry-specific interventions, such as private–public partnerships, instituting regulatory bodies, and unlocking unused land.

Further, the study acknowledges limitations, such as the absence of officially collected data on house and rental prices and points to possible future research on the implications of macro prudential tools on house lending and prices. As PNG navigates the challenges of housing affordability, a comprehensive understanding of these macroeconomic factors will be instrumental in shaping effective policies and ensuring a stable housing market for the country's residents.