



# PAPUA NEW GUINEA

## REQUEST FOR A STAFF-MONITORED PROGRAM; AND STAFF REPORT

February 2022

In the context of the Request for a Staff-Monitored Program, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF, following discussions that ended on October 28, 2021, with the officials of Papua New Guinea on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 20, 2021.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.

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# PAPUA NEW GUINEA

## REQUEST FOR A STAFF-MONITORED PROGRAM

December 20, 2021

### EXECUTIVE SUMMARY

**Context and recent developments.** Papua New Guinea (PNG) is a fragile state, vulnerable to recurrent shocks. A third wave of the COVID-19 pandemic is straining the healthcare system. Widespread vaccine hesitancy has contributed to very low uptake of the vaccines with about only 2 percent of the population fully vaccinated. Real GDP is estimated to rebound modestly to grow by 1.7 percent in 2021 after the downturn in 2020. Elections are due to take place in June 2022, and the formal campaign period will commence by end-April.

**Outlook and risks.** If the authorities are able to overcome the current COVID-19 wave, real GDP growth is expected to accelerate to 4.8 percent in 2022 as mining activity resumes and the non-resource sector expands. However, near-term risks remain high and continue to be pandemic-related. PNG is also vulnerable to climate and other natural disasters. Macroeconomic vulnerabilities stem from PNG's elevated public debt level: the debt sustainability analysis confirms that PNG remains at high risk of debt distress. The external sector assessment shows that the external position is weaker than implied by fundamentals and desirable policy settings, and staff assesses the real exchange rate as being moderately overvalued.

**Performance under the 2020-21 Staff Monitored Program (SMP).** While performance under the last SMP, which ran from February 2020—June 2021, was mixed, due in part to the pandemic, there was progress on a number of reforms and the authorities were able to complete most structural benchmarks. Nevertheless, the pandemic, coupled with low capacity on the authorities' side, the challenges of mounting virtual missions and a lack of experience with Fund programs caused delays in sharing information to allow for the completion of program reviews. PNG received a disbursement under the Rapid Credit Facility (RCF) in June 2020.

**Program objectives and modalities.** The authorities have requested a short 6-month SMP to run from December 7, 2021 to June 15, 2022, just before the election to consolidate the progress under the 2020-21 SMP. Therefore, the program aims to: (i) ensure fiscal consolidation to strengthen debt sustainability, and make space for capital expenditure; (ii) address the FX shortage with the aim of restoring kina convertibility; and (iii) improve governance and anti-corruption measures in the public sector, with a focus on implementing the recommendations of the recently concluded Fund's Safeguards

Assessment of the Bank of Papua New Guinea (BPNG) and adopting necessary regulations for the full operationalization of the Independent Anti-Corruption Commission. To this end, the authorities have passed a Budget framework for 2022 that targets a more than 1 percentage point of GDP reduction in the fiscal deficit, and agreed to consult closely with the Fund on a plan to address weaknesses identified in the Safeguards Assessment. Staff will make a comprehensive assessment of the authorities' capacity to implement program commitments, particularly to improve data lags and strengthen internal coordination, that could lead to an eventual upper credit tranche arrangement if a balance of payments need arises in the future. In the near term, the SMP is also expected to help catalyze budget support from external partners and avoid public finance distress.

**Risks to the program.** In addition to capacity constraints and the challenges posed by the ongoing pandemic, the election period limits the scope of reforms that could be successfully undertaken. In particular, there would be no scope for a program extension should more time be required to pursue remedial actions to ensure adequate program implementation. The lack of information sharing, a critical problem in the 2020-21 SMP, is another source of risk. Staff propose to manage these risks by designing a streamlined and focused program to target critical reforms; and engaging regularly and frequently with the authorities to ensure information is provided and reforms stay on track.

**Staff views.** Staff supports the request for an SMP. The Letter of Intent and Memorandum of Economic and Financial Policies demonstrate program ownership and appropriate policies.

Approved By  
**Krishna Srinivasan (APD)**  
**and Andrea Schaechter**  
**(SPR)**

Discussions took place between an IMF staff team—led by Tahsin Saadi Sedik and comprising Natalija Novta, Narayanan Raman (both APD), Emanuel Kopp (SPR) and Devendra Narain (Pacific Islands Resident Representative Office)—and the Papua New Guinea authorities between September 7–October 28, 2021. Mr. Srinivasan joined a meeting with the authorities on the margins of the Annual Meetings. Leni Hunter (IMF Resident Representative to the Pacific Islands) and Laura Johnson (OED) also participated in the meetings.

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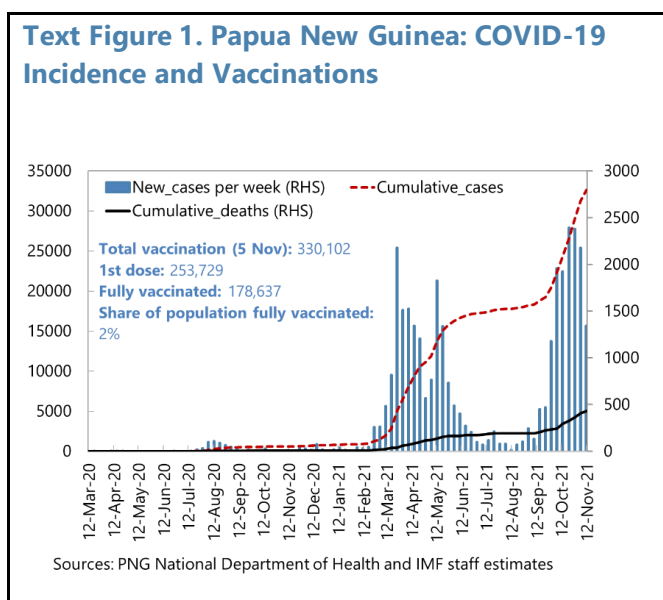
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## CONTEXT

**1. Papua New Guinea (PNG) is a fragile state, vulnerable to climate and other natural disasters and terms of trade shocks.** Before COVID-19, PNG was impacted by lower commodity prices in 2014; severe drought in 2015-16; and a major earthquake in 2018. While rich in natural resources, most of the population depends on subsistence agriculture.

**2. Swift action prevented a large COVID-19 outbreak in 2020, but a surge in infections due to the Delta variant is overwhelming the healthcare system.**

The resurgence of the disease has stretched the authorities' capacity to cope, resulting in an increase in COVID-related deaths. The authorities have appealed for international assistance as a result Australia, New Zealand and UK have dispatched medical teams to the most affected regions. The vaccination rate remains low at around 2 percent of the population. Vaccine hesitancy and apathy are widespread, due to a belief that vaccines are unsafe and COVID-19 is not life threatening.



**3. General elections are scheduled to take place in June 2022,** with official campaigns starting in late April. The post-election period should offer some political stability as no-confidence votes are forbidden for the first 18 months after the appointment of a Prime Minister.

## RECENT ECONOMIC DEVELOPMENTS AND ENGAGEMENT WITH THE FUND

**4. After a decline in 2020, real GDP is estimated to recover modestly in 2021 to grow by 1.7 percent (Table 1).** Growth is largely driven by higher production of key agricultural export commodities (palm oil, cocoa, coffee) which performed well despite the surge in COVID-19 cases supported by higher commodity prices and Government support to boost the output of these commodities. In the extractive sector, however, output continued to decline due to the closure of the Ok-Tedi copper and Simberi gold mines, and delays in opening the Porgera gold mine. Inflation, which rose to 5.1 percent in 2020, remains high at an estimated 5.8 percent in 2021, reflecting higher import prices for goods from major trading partners, higher commodity prices particularly fuel, and the impact of lockdowns on domestic supply chains.

**5. As lower export revenues in 2020 were partly offset by weaker import demand, the 2020 current account (CA) surplus narrowed marginally from 2019 to 22 percent of GDP.**<sup>1</sup> In 2020, goods exports volumes increased by around 3 percent compared to 2019, while the value of exports declined by 19 percent, owing mainly to weak 2020 commodity prices, including for LNG (-20 percent) and crude oil (-33 percent). However, gold price rose by a record 27 percent, largely absorbing the 19 percent drop in 2020 gold export volumes. Prices of agricultural goods recorded a modest decline, but output has surprised on the upside. In 2021, the external position has profited from high commodity prices and strong global demand for PNG's export goods, keeping the CA surplus essentially unchanged despite continuing supply bottlenecks induced by the COVID-19 pandemic (Table 4).

**6. Fiscal revenues exceeded Budget projections, driven by significantly higher non-tax revenues (Text Table 1).** The authorities' 2021 Mid-Year Economic and Financial Outlook (MYEFO) showed that foreign grants were significantly higher than projected. In the first half-year, the authorities had already received nearly 92 percent of the annual projected grants. However, tax revenue collection lagged due to weaker receipts from personal income tax and taxes from international trade, both reflecting the pandemic. While the pattern of overall expenditure for the

**Text Table 1. Papua New Guinea: Mid-Year Budget Outturn, 2017-21**

	2021		1H Outturn	
	1H	Budget	2021	Average for 2017-20
	Millions of kina		Percent of annual budgeted amount	
<b>Revenue</b>	<b>5,506.4</b>	<b>12,995.0</b>	<b>42.4</b>	<b>40.1</b>
Taxes	4,547.8	11,109.7	40.9	43.1
Other revenues	33.5	876.9	3.8	26.5
Grants	925.1	1,008.3	91.7	29.5
<b>Expenditure and lending</b>	<b>8,196.9</b>	<b>19,607.8</b>	<b>41.8</b>	<b>38.6</b>
<i>Of which:</i>				
Compensation of employees	2,824.5	5,706.5	49.5	44.7
Use of goods and services	1,885.4	5,812.6	32.4	30.8
Grants to provincial and local governments	1,012.5	1,965.6	51.5	45.7
Interest payments	1,007.0	2,254.9	44.7	49.9
Net acquisition of non-financial assets	1,442.5	3,755.1	38.4	25.1
<b>Net borrowing (-)/lending (+)</b>	<b>-2,690.5</b>	<b>-6,612.8</b>	<b>40.7</b>	<b>28.5</b>

Source: Country authorities and IMF staff calculations.

<sup>1</sup>The published data on the CA surplus in PNG is likely overstated due to problems in classifying large income account outflows, including external debt service payments related to resource projects, under financial account rather than the current account. See the discussion in Box 1 in the Staff Report for the 2019 Article IV Consultation with Papua New Guinea and Request for a RCF (IMF Country Report No. 20/95).

first half-year is consistent with past years, there have been significant increases in compensation of employees, grants to provincial and local governments and capital spending. The higher outturn in personnel spending reflects an increase in retirement-related costs, which had not been fully budgeted for, and remuneration for new teachers, and defense and police personnel. The higher capital spending is driven mainly by the increase in donor-provided capital grants. On the other hand, the authorities benefited from lower interest payments than budgeted from the relief due to the G20's Debt Service Suspension Initiative (DSSI).

**7. While banks are reported to remain well capitalized, non-performing loans (NPLs) rose with the downturn in economic activity.** The reported capital adequacy ratio stood at 39.6 percent in September 2021, mostly composed of Tier 1 capital. In response to the increase in NPLs, to 5.6 percent in September 2021, the Bank of Papua New Guinea (BPNG) required banks to provide monthly reports on their financial conditions. The BPNG also intensified its liquidity, foreign exchange, and market risk supervision. The AML/CFT regulator, the Financial Analysis Supervision Unit, initiated regulatory actions against the Bank South Pacific (BSP), the largest commercial bank in PNG, in July 2021, citing several breaches of regulations. So far this has not disrupted existing correspondent banking relationships.

**8. The last Staff Monitored Program (SMP), which was approved in February 2020, expired in June 2021 without the completion of a review (Appendix 2).** Performance under the 2020-21 SMP was hampered by the pandemic, including challenges in organizing remote meetings; capacity constraints; and political challenges. Despite slippages and delays in meeting quantitative targets (QTs) and structural benchmarks (SBs), the SMP provided an important disciplining framework for the authorities and advanced their reform agenda. Staff's preliminary assessment is that four of six QTs were met and 13 of the original 17 SBs were completed, of which five with delays. Staff were able to reach understandings on remedial steps and revised targets, including 12 structural measures, to complete the first review in early 2021. However, the authorities were only able to confirm that the bulk of these measures were met on the last day of the program and thus the review was not able to be completed. In June 2020, the Executive Board approved a disbursement amounting to SDR263.2 million (US\$363.6 million, 100 percent of quota) under the Rapid Credit Facility (RCF) to address the pandemic. The 2019 Article IV consultation was completed in February 2020. In addition to capacity development support linked to specific program targets and benchmarks, the PNG authorities are receiving Fund technical assistance (TA) in a number of other areas. The authorities have recently agreed to a multi-year macro framework TA aimed at enhancing the authorities' analytical capacity to produce consistent macroeconomic forecasts and assess fiscal, monetary, and exchange rate options in support of program goals on a consistent basis.

**9. The first Safeguards Assessment of the BPNG has been completed.** The assessment found that the Central Banking Act, which is under review, requires amendments to sufficiently protect the BPNG's financial, personal, and institutional autonomy and enhance governance arrangements. While transparency is supported by compliance with International Financial Reporting Standards (IFRS), audit arrangements should be improved to safeguard the external auditors'

independence and align internal audit to international standards. The internal control system is being strengthened, including through the establishment of a risk management function. Closer engagement of the BPNG's oversight bodies over the ongoing initiatives is needed to ensure timely implementation.

## OUTLOOK AND RISKS

**10. Real GDP is expected to strengthen to 4.8 percent in 2022 on the back of higher output in the resource sector (Table 1).** Mines affected by the pandemic are expected to return to normal operations, which will be bolstered by the full resumption of operations at the Porgera gold mine. The large resource companies have put in place COVID-19 mitigation measures such as on-site quarantine facilities which would help continued operations if infections spread to the mining areas. Moreover, the gradual easing of containment measures, higher capital spending by the government, and some relaxation of travel restrictions in the second half of 2022 would support recovery in the non-resource sector. Furthermore, the authorities do not plan to implement strict lockdown measures which would support growth in trade and commerce sector. Year-end inflation is projected to be around 5.0 percent, driven by the rebound in domestic demand. In the medium term, the economy is estimated to grow by an average of 3 percent, driven by the non-resource sector.

**11. Risks are tilted to the downside.** The main near-term risk continues to be pandemic related. In the absence of faster progress on vaccinations, further restrictions and lockdowns are possible, with the attendant impact on economic activity and external inflows, particularly if the resource sector is forced to shut down due to infections. In addition, PNG is vulnerable to climate and other natural disasters. With limited sources of financing available in an adverse shock scenario and pressing social and development needs, the room for significant policy adjustment is limited. In October 2021, the Department of Finance was hit by a major ransomware attack, which froze access to funds, including donor-provided funds, and delayed work on the 2022 Budget. Other systems in PNG could be similarly vulnerable to attacks, with adverse macroeconomic implications. On the upside, higher commodity prices or a decision to go ahead with several resource projects, including Papua LNG, P'nyang LNG and the Wafi Golpu mining project, could boost growth, exports, and government revenues over the medium term.

**12. PNG's external position in 2020 was weaker than implied by fundamentals and desirable policy settings (Appendix 1).** While the kina significantly depreciated in nominal terms (NEER) over the past few years, the real effective exchange rate (REER) has remained comparatively stable as inflation differentials between PNG and its trading partners have offset the impact of the depreciation. Depending on the model used, the CA gap is estimated at -2.2 percent of GDP. Given this, staff estimates that the kina is moderately overvalued by around 6 percent in real terms and PNG's external position is weaker than implied by fundamentals and desirable policies. This overvaluation contributes to continued pressures in the domestic foreign exchange market. On the other hand, gross international reserves increased to 8 months of imports of goods and services (or 13 months of non-mineral imports) in 2020, comfortably exceeding the 3-month norm. Over the



past few years, the BPNG has been targeting a gross international reserves level of no less than US\$1.8-2.0 billion to meet the economy's needs for FX. Gross international reserves in 2020 were equivalent to 8 months of imports, consistent with IMF staff's assessment for reserves adequacy in 2020.

**13. PNG's public and publicly guaranteed debt remains at high risk of debt distress, with weak debt-carrying capacity.** Under the Low-Income Country Debt Sustainability Framework (LIC DSF), the planned fiscal consolidation helps address debt vulnerabilities exacerbated by the global COVID-19 shock, but the risk of both external and public debt distress continues to be assessed as high. Over the medium-term, public debt is projected to enter a downward trend and the projected temporary breaches of sustainability indicators can mostly be addressed by debt management operations as well as improvements in revenue generation, a key pillar of the SMP. The DSA confirms that PNG is vulnerable to exports shocks, signaling serious downside risks to the debt outlook. An updated Guarantee Policy was issued in 2021 to strengthen the oversight over the contracting of debt by the wider public sector, including SOEs. Complementing this, steps are being taken to address arrears accumulated by and to the power utility as a step in strengthening its financial position (Memorandum of Economic and Financial Policies (MEFP) ¶21).

## PROGRAM DISCUSSIONS

**14. The key objectives for the proposed program build on priorities identified in the last SMP (Box 1 and MEFP ¶14).** The authorities note there was progress under the 2020-21 SMP and are now looking to consolidate and build on those gains through a short program that is focused on advancing key reforms given the political context. These priorities include return to a gradual process of fiscal consolidation to strengthen debt sustainability, and make space for capital expenditure; address the FX shortage with the aim of restoring kina convertibility over the medium term; and improve governance in the public sector. Given the deep-seated nature of some of these challenges, a multi-year engagement with the Fund, supported by other development partners, is needed. Nevertheless, the proposed SMP could make tangible progress on these fronts in the 6 months from December 7, 2021 to June 15, 2022, putting PNG in a stronger position to pursue future reforms. In the near term, continued Fund engagement could also help crowd in much needed donor support.

### Box 1. Key Medium-Term Objectives and Measures of the SMP

#### *Fiscal measures*

Strengthen medium-term debt sustainability by gradually reducing the public debt-to-GDP ratio from 46.7 percent in 2020 to under 35 percent over the longer term. To make progress on this, the authorities intend to:

- Lower the fiscal deficit in 2022 to 6.0 percent of GDP, including through about ½ percent of GDP in policy measures.
- Contain and reduce spending on compensation of employees by improving payroll management and manpower planning.

### Box 1. Key Medium-Term Objectives and Measures of the SMP (concluded)

- Ensure the implementation of their Medium-Term Revenue Strategy and other revenue reforms to raise the domestic revenue-to-GDP ratio, including by strengthening tax administration through the adoption of a revised Tax Administration Act, and improving tax policy by completing the drafting of an updated Income Tax Act.

Utilize the fiscal space created by the strategies above as it becomes available to reorient spending toward capital investment and to meet pressing social needs.

#### **Monetary and Foreign Exchange (FX) Measures**

Prepare for a gradual return to kina convertibility (including eliminating exchange restrictions and multiple currency practices) and the adoption of a market-determined exchange rate by:

- Strengthening liquidity management and monetary operations; and
- Identifying the backlog of unfilled FX orders at commercial banks and taking measures to reduce it.

#### **Structural and Governance Measures**

Address weaknesses in the governance, autonomy and internal controls of the BPNG as reported in the recent Safeguards Assessment by introducing amendments to the Central Banking Act.

Support the ongoing program to improve oversight and control of state-owned enterprises (SOEs), building on the progress made to improve financial disclosure.

Support the ongoing implementation of anti-corruption reforms, including through the preparation of enabling regulations for recently passed legislation.

Ensure there continue to be regular updates of COVID-related spending, and timely audits and assessments of this expenditure, in line with commitments made at the time of the RCF request.

## A. Fiscal Policies: Strengthening Debt Sustainability

**15. Revenues and expenditure are both expected to exceed the 2021 Budget projections (MEFP ¶15-18; Text Table 2).** Revenues are expected to be 0.4 percentage point (pp) of GDP higher than budgeted,<sup>2</sup> largely reflecting upward revisions to foreign grants and somewhat higher non-tax revenues, particularly dividends from SOEs. On the other hand, tax revenues are expected to underperform due to lower personal and company tax collection as a result of the pandemic. Indirect taxes are also expected to be lower, reflecting lower import excises. Expenditure is expected to be higher by 0.6 pp of GDP, reflecting an upward revision of employee compensation, restoration of tuition subsidies for schools, higher healthcare and other COVID-related spending, and an increase in capital spending (MEFP ¶27). The higher personnel emoluments reflect higher-than-expected spending on retirement costs and salaries for teachers, police and defense personnel, while the increase in capital expenditure largely reflects grant-financed spending. Debt service relief under the DSSI, on the other hand, is expected lower expenditure by 0.2 pp. As a result, the deficit is now forecast to be 0.3 pp higher than in the Budget. The deficit will be largely externally financed,

<sup>2</sup> The authorities are targeting a 0.8 pp increase in revenues, driven by higher dividend receipts from SOEs. These additional revenues are not yet confirmed and a more conservative deficit reduction was agreed for the program. If the authorities' revenue projections materialize, the authorities intend to maintain the originally budgeted deficit (7.1 percent of GDP).

including by utilizing the general allocation of special drawing rights (SDRs, 1.3 pp) for budget financing, given the ongoing demands of dealing with the pandemic. The authorities are consulting with Fund staff and internally to ensure recording the use of the SDRs is transparently implemented.

**Text Table 2. Papua New Guinea: Summary of Fiscal Operations, 2020–22**  
(Percent of GDP, unless otherwise indicated)

	2020	2021		2022	Difference <sup>1/</sup> pp.
	Actual	Budget	Revised	Prog.	
<b>Revenue</b>	<b>14.2</b>	<b>14.0</b>	<b>14.4</b>	<b>15.6</b>	<b>1.2</b>
Tax revenue	11.5	12.0	11.7	12.3	0.6
<i>Of which: From cyclical improvements</i>					0.6
<i>Of which: From policy adjustments</i>					0.0
Non-tax revenue	1.0	0.9	1.0	1.5	0.5
<i>Of which: From cyclical improvements</i>					0.1
<i>Of which: From policy adjustments</i>					0.4
Grants	1.7	1.1	1.8	1.8	0.0
<b>Expenditure</b>	<b>22.7</b>	<b>21.2</b>	<b>21.8</b>	<b>21.6</b>	<b>-0.2</b>
Expense	18.6	17.1	17.6	16.6	-0.9
Compensation of employees	6.8	6.2	6.4	6.0	-0.4
Use of goods and services	6.3	6.3	6.5	6.0	-0.4
<i>Of which: COVID-19 spending <sup>2/</sup></i>	0.6	0.6	0.6	0.0	-0.6
<i>Of which: General election expenditure</i>				0.8	0.8
Interest	2.5	2.4	2.2	2.3	0.1
Others <sup>3/</sup>	2.9	2.2	2.5	2.3	-0.2
Net acquisition of non-financial assets	4.1	4.1	4.2	5.0	0.8
<b>Net lending (+)/borrowing (-)</b>	<b>-8.6</b>	<b>-7.1</b>	<b>-7.4</b>	<b>-6.0</b>	<b>1.3</b>
Memo item:					
Nominal GDP (billions of kina)	85.3	92.7	93.1	101.0	

Sources: Country authorities, IMF staff.

<sup>1/</sup> Difference for 2022 relative to the revised fiscal projection for 2021.

<sup>2/</sup> COVID-19 related spending was allocated as a contingency in the 2021 Budget and is being booked as spending on goods and services. Some reallocation could occur when the Final Budget Outcome is reported in 2022.

<sup>3/</sup> Includes grants to regional governments, social spending and other current spending not elsewhere classified.

**16. The 2022 Budget will target a gradual consolidation while ensuring space for needed spending is preserved (Tables 2a, b; Text Table 2; MEFP ¶22).** The Cabinet-level National Economic Council (NEC) has approved a fiscal framework that targets an overall deficit of 6 percent of GDP, consistent with understandings reached during discussions with staff (prior action), which has been published in the government's 2022 Budget Strategy Paper. The final Budget, which targets a somewhat more ambitious deficit reduction,<sup>3</sup> was approved by Parliament in late

<sup>3</sup> The Budget targets a deficit of 5.9 percent of GDP, lower than the 6 percent agreed with staff, on the back of higher non-tax revenues (0.3 pp of GDP). The additional revenue is envisaged to be partly spent on transfers to provincial and district governments, and investment, with the rest going to deficit reduction. The macroeconomic and debt sustainability impact of the Budget is not significantly different from the fiscal framework that was agreed with the authorities (Tables 1-4).

November. The fiscal framework envisages an improvement in domestic revenues, driven by a cyclical improvement in tax revenues and policy measures taken to increase the contribution from SOEs, and, following the passage of the Non-Tax Revenue Bill (see below), from statutory authorities, while expenditures will be focused on supporting the recovery, continuing the shift toward capital spending, adequately financing education and healthcare, and the one-off allocation for the organization of the elections.

**17. While the near-term improvement in tax revenues is largely expected to be driven by the economic recovery, the authorities are also pursuing reforms to improve revenue collection over the medium term (MEFP ¶23).** Chief among these include approval of Consequential Amendments to the Tax Administration (TAA), which clarifies existing laws and strengthen the legal authority of revenue collection agencies (structural benchmark, SB3). The Amendments will also simplify tax assessment and compliance, which should lower the administrative burden on taxpayers. The Amendments were approved alongside the 2022 Budget in late November. Work to reform the Income Tax Act (ITA) is at an advanced stage but owing to the need to engage with stakeholders, the authorities expect to complete it in 2022 and have it come into force alongside the 2023 Budget. Many of the provisions of the ITA, including simplifying tax compliance and introducing a simpler tax system for small businesses, should improve the business climate, which the authorities expect will strengthen compliance. In addition, the revised ITA also contains proposals aim to limit deductions and strengthen tax administration. Other key reforms being pursued include ongoing improvements to tax administration and the introduction of levies on banking and telecommunications revenues where operators enjoy high profits due to concentration. These reforms will likely pay off over the medium term, and hence the improvements are difficult to quantify. In the near term, the authorities expect improvements will come from the impact of stronger economic growth on tax revenues. The authorities have also asked for TA as part of their review of their Medium-term Revenue Strategy (MTRS), which will expire in 2022 (MEFP ¶24). They intend to use the review to guide their future efforts to strengthen revenue mobilization.

**18. The near-term efforts to strengthen expenditure management will focus on strengthening systems used for payroll management (MEFP ¶25-26).** In 2021, a pilot program in the Department of Treasury to correct payroll records, which aimed to ensure warrants for payrolls were aligned with the actual workforce, was completed. As the exercise was extended to other government units under the ALESCO payroll system, the authorities have identified approximately 18,000 staff who have reached the mandatory retirement and 575 more who will join them in 2022. While upfront costs to finance their retirement benefits will need to be allocated, transitioning this cohort to retirement will contain the trajectory of personnel costs over the medium term but they cannot yet quantify these medium-term savings. In 2022, the authorities intend to undertake a Staffing Establishment Survey (SB2) that is intended to establish detailed information on current staffing levels, institute processes to ensure data is updated regularly and, eventually, integrate the payroll management system into the IFMS, the public expenditure management system. Notwithstanding efforts to strengthen expenditure management, the authorities are committed to increasing healthcare spending and maintaining the social spending envelope in real terms (IT) in light of the pressing needs in the post-pandemic period, including to deal with ongoing COVID-19 cases.

**19. The deficit will continue to be largely externally financed through the use of concessional and near-concessional sources from donors (MEFP ¶28; Text Table 3).** The government is working with donors to strengthen transparency on spending to limit delays, which has started to show results: disbursements are occurring more smoothly through the year, allowing critical projects to move forward with fewer delays. On the domestic front, the government continues to work on deepening financial markets to increase the investor base and lower the cost of funding. While directed at improving monetary management, the institutionalization of the public debt committee (SB4, see below) will also strengthen domestic financial markets and provide a reliable and cost-effective source of funding going forward.

**Text Table 3. Papua New Guinea: Public Sector External Sources of Financing—Composition**  
(In millions of US dollars, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022
Multilateral	1,272.4	1,631.8	1,848.1	2,900.4	3,518.3	3,822.0
Bilateral Paris Club	7.6	138.5	460.1	642.1	644.6	910.0
Bilateral Non-Paris Club	660.4	724.4	868.4	1,016.9	1,126.5	1,175.2
of which: China	537.5	724.4	859.8	974.0	1,052.2	1,086.9
Commercial	848.2	1,074.6	1,076.8	830.9	577.4	561.1
<b>Total</b>	<b>2,788.6</b>	<b>3,569.2</b>	<b>4,253.4</b>	<b>5,390.3</b>	<b>5,866.8</b>	<b>6,468.3</b>

Sources: PNG Treasury (2017-2021) and IMF projections (2022).

## B. Monetary and Exchange Rate Policies

**20. Since September 2020 the authorities have resorted to greater use of the Central Bank overdraft facility to allow better cash flow management.** As donor flows to support the budget during COVID-19 arrived late in the fiscal year, the authorities amended the Central Banking Act to increase the limit for the Temporary Advance Facility (TAF) to ensure spending could take place in a timely fashion. Nevertheless, the TAF is not intended to function as a permanent source of financing for the Government, as this would adversely impact the Central Bank's monetary policy operations and its balance sheet. While TAF repayment must be made within 12 months, so far, the authorities have not carried over any outstanding TAF balances across budget years. A set of operational guidelines for the TAF was finalized between BPNG and the Treasury to safeguard BPNG's monetary autonomy (MEFP ¶34).

**21. To improve effectiveness of foreign exchange operations and strengthen liquidity management, the BPNG has requested IMF TA.** As a precondition to reinstating Kina convertibility, the BPNG needs effective tools to manage excess systemic liquidity, which would reduce demand for FX and help bring it in line with supply conditions. Improved FX operations and liquidity management would also support development of the non-resource sector and strengthen the BPNG's ability to manage inflation. The authorities committed to strengthening their existing Public Debt Committee (MEFP ¶35, SB4) to improve liquidity management and forecasting.

**22. The authorities expressed commitment to ensuring adequate FX reserves while alleviating the FX shortage (MEFP 132).** At the height of COVID, the BPNG prioritized maintaining FX reserves, and fell short of its target for FX sales to authorized dealers in the 2020-21 SMP. With favorable commodity prices and sustained donor inflows, including the IMF SDR allocation, the authorities are committed to providing at least US\$180 million to the market every quarter (QT), while also observing the floor on FX reserves (QT).

### C. Strengthening the Central Banking Act

**23. The ongoing review of the Central Banking Act is expected to modernize the BPNG and improve its governance and accountability framework (MEFP 136-38).** The authorities appointed an Independent Advisory Group (IAG) to conduct the review and propose possible amendments to the Central Banking Act in two phases. Phase 1 explores the BPNG mandate, institutional governance, monetary policy governance, as well as a review of the TAF. Phase 2 will look at the BPNG's regulatory role. Key weaknesses in the BPNG's legal framework uncovered in the Fund's Safeguards Assessment are expected to be addressed in a comprehensive review of the Central Banking Act, for which Fund TA has been requested (SB5). The [IAG report](#) identifies many shortcomings that are consistent with the findings of the Safeguards Assessment. However, the report also contains some recommendations, which if adopted in their current form may be costly over the long run, including introducing a dual mandate for the BPNG that targets price stability and employment and economic growth but without a clear ranking, and institutionalizing monetary financing of the government, though with a limit. These reforms will need to be buttressed with work to strengthen the BPNG's financial, personal, and institutional autonomy; and improve internal controls and audit functions.

### D. Addressing Governance Challenges

**24. The recently enacted Organic Law on the Independent Commission Against Corruption (ICAC) is facing a constitutional challenge.** The ICAC Act bestows a new body with the power to investigate and pursue complex corruption cases and to carry out activities to deter corruption. Despite litigation, the authorities continue to prepare for full ICAC operation and are developing implementing regulations for ICAC. The implementing regulations will cover standard operating procedures to ensure the Commission's independence, and terms and conditions of the staff of the Commission to ensure they are properly compensated, and governance arrangements are in place. The interim ICAC office produced the Anti-corruption National Plan of Action, endorsed by the NEC in 2020. Notwithstanding these encouraging anti-corruption milestones, which were supported under the 2020-21 SMP, governance challenges remain and will need to be addressed through a sustained, multi-year effort with close Fund support, which is ongoing. The authorities showed interest in learning more about a comprehensive governance diagnostic to guide future reforms.

**25. Transparency in procurement must be maintained, particularly for COVID-related spending, as agreed under the RCF disbursement (MEFP 129).** The government has committed

to resume updating information on COVID-related procurement, including posting details of beneficial owners of successful bidders at <https://www.procurement.gov.pg/covid-19-procurement/>, which has not been updated since mid-2020. Staff will monitor progress on this commitment as a part of program assessment. In addition, the authorities have reiterated their intention to conduct an audit of procurement contracts, which will be published within one year after the end of the State of Emergency, in line with commitments made under the RCF. Nevertheless, given that the bulk of COVID-related spending would have taken place in 2020 and 2021, staff will encourage to the government to make an earlier start on the audit. While the National Procurement Act has now been operationalized, continued commitment to transparency in procurement is necessary for a durable improvement in governance.

**26. Strengthening oversight and management of SOEs, including publishing audited financial statements for major SOEs, further supports wider governance efforts.** In this regard, the authorities have moved more rapidly than expected: financial statements for 2018 for all key SOEs identified by the Asian Development Bank (ADB), especially companies under Kumul Consolidated Holdings (KCH), which holds the government's assets in the non-mining and non-petroleum sector, have been published and most of these enterprises have also done the same for the 2019 and 2020 statements (MEFP ¶41). The authorities have completed all reform measures for 2021 in the ADB-supported SOE reform program, improving the legislative and policy framework, and enhancing governance and transparency. Further commitment to SOE reforms, in line with the program developed with the ADB, is strongly encouraged.

## E. Improving Data Availability for Program Monitoring and Policy Formulation

**27. The SMP will aim to address challenges related to data compilation and reporting (MEFP ¶45).** The 2020-21 SMP was impacted by data and information reporting gaps that were longer than envisaged, more than 3 months in some cases, which ultimately stymied the timely completion of reviews. To address this, the authorities have set up a high-level Program Monitoring Committee to maintain close contact with staff and follow-up on data requests, including ad hoc requests for information that may arise. Staff will support this process by scheduling periodic meetings to ensure data requests are given the authorities' fullest attention. To further improve the timeliness of data reporting, the authorities have requested to use the more quickly available financing data to monitor the fiscal deficit, which staff supports.

## STAFF APPRAISAL

**28. While expected to gain momentum, the economic recovery in 2022 remains fragile.** High risks surrounding the macro framework and the program largely emanate from the pandemic. The current surge in COVID-19 cases, if not controlled, has the potential to derail the recovery. In the absence of faster progress on vaccinations, further restrictions and lockdowns are possible, with attendant impacts on economic activity and external inflows. PNG remains at high risk of debt

distress with weak debt-carrying capacity, but contingent on prudent fiscal policies, debt remains sustainable. The external balance assessment suggests that PNG's external position is weaker than implied by fundamentals and desirable policies.

**29. Mixed performance in the 2020-21 SMP attributable to the pandemic and capacity constraints.** 2020-21 SMP targets and structural benchmarks were very ambitious for a fragile state, especially after the COVID-19 outbreak. Program performance was hampered by the pandemic, both in terms of outcomes as well as the authorities' ability to communicate and report in a timely manner. Performance was also undermined by political instability, and severe capacity constraints. Nonetheless, the authorities made important progress in their reform agenda, including implementation of key aspects of revenue reforms, cash forecasting, and facilitating a Safeguards Assessment.

**30. While focused, the proposed program is ambitious and aims to maintain progress on long-standing issues.** The SMP aims to consolidate on the achievements of the 2020-21 program by encouraging a balanced fiscal consolidation strategy centered on strengthening revenue mobilization and improving expenditure management, particularly by bringing the government wage bill under control, while making space for needed investment and social spending; addressing the FX shortage and putting in place the conditions for the restoration of kina convertibility; and strengthening public sector governance, including strengthening the anti-corruption framework, and improving public sector oversight and transparency.

**31. Close Fund engagement is expected to also crowd in financial support from other official bilateral and multilateral donors at this critical juncture.** The authorities are in the process of finalizing financing for the execution of their 2021 and 2022 Budgets, and have indicated they intend to use the SDR allocation for budget financing in 2021. Given the ongoing spending needs related to the pandemic, staff considers this an appropriate measure and are working with the authorities to ensure this is done transparently and in accordance with the authorities' legal and institutional frameworks. There has been good progress on meeting the conditionality to access funding from multilateral development partners including the Asian Development Bank and the World Bank. Discussions with bilateral partners, particularly Australia, are still ongoing. Donors remain closely engaged and consider a Fund program to be a positive sign. Under these conditions, staff consider the program to be fully financed.

**32. The FX shortage has eased somewhat due to cyclical developments but policies to address the structural issues need to be put in place.** As a first step, the authorities are working to improve debt and liquidity management by institutionalizing the Public Debt Committee to develop a debt issuance strategy, develop cashflow projections to guide debt issuance, and commit to regular meetings. This can help set the stage for frequent issuance of securities that can then be used for monetary and liquidity management, a precondition to effective management of FX demand and thus, the eventual reinstatement of kina convertibility.

**33. The review of the Central Banking Act is an opportunity to address issues identified in the Fund's Safeguards Assessment.** The assessment found that the Central Banking Act requires



amendments to sufficiently protect the BPNG's financial, personal, and institutional autonomy and enhance governance arrangements. Close engagement and consultation between the BPNG and Treasury is needed to ensure that Safeguards Assessment recommendations are implemented. Fund TA on amendments to the Central Banking Act will therefore inform the legislative amendments being drafted by the Treasury.

**34. There has been a significant improvement in financial disclosure of major SOEs and continued transparency with timely audited financial statements of SOEs and COVID-19 procurement contracts is needed.** KCH and other SOEs have caught up on publishing audited financial statements for 2018 and have reduced the backlog for 2019 and 2020. The authorities are committed to meeting their commitments to ensure transparency around COVID-19 procurement contracts as set out in their RCF request. Adherence to this transparency requirement will help with broader anti-corruption efforts.

**35. Progress to operationalize ICAC and implement the recently enacted Whistleblowers Acts has been mixed, but the authorities intend to push forward reforms, with Fund TA.** Pending resolution of the litigation, the interim ICAC office is appropriately working toward drafting standard operating procedures, implementing regulations and a code of ethics, and establishing the ICAC organizational structure to prepare for normal operation. Going forward, the key challenge will be on implementation and sustained commitment to governance reforms, and Fund will continue to provide targeted capacity development (CD) on anti-corruption and rule of law, which would also serve as a precursor to further analysis, such as a governance diagnostic assessment.

**36. Improving provision of data is critical to both the success of this SMP and future Fund engagement.** To this end, the authorities have set up a high-level Program Monitoring Committee to coordinate the collection and sharing of information, and engagement with staff. Staff will support these efforts by stepping up engagement during non-mission periods to ensure proper follow up on information requests to facilitate effective program monitoring.

**37. Staff support the authorities' request for a 6-month Staff Monitored Program.** The SMP, if successful, would build on progress seen under the 2020-21 SMP and make progress on key macroeconomic and governance reforms. As noted above, the SMP is also expected to help catalyze budget support from external partners and avoid public finance distress. The commitments under the SMP—demonstrating program ownership and appropriate policies—are detailed in the attached MEFP, including the program targets and benchmarks agreed with staff in MEFP Tables 1 and 2.

**38. Staff supports the authorities' request to specify a single test date at end-December 2021.** While this departs from the typical Fund practice of specifying at least two test dates, staff considers the reporting lags and capacity constraints in PNG to warrant a deviation given the short program duration proposed. Staff will make a comprehensive assessment of the authorities' capacity to implement program commitments, particularly in improving data reporting and strengthening internal coordination, that could lead to an eventual upper credit tranche arrangement if a balance of payments need arises in the future. The program review is expected to take place in April 2022.

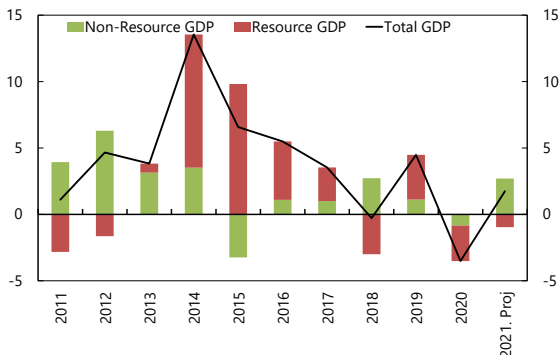
**39. Implementation risks to the program stem from vulnerability to shocks, and capacity and political constraints.** PNG faces challenges in dealing with the current wave of the pandemic and is highly exposed to external shocks, including for commodity prices, that can adversely impact macroeconomic conditions. In addition, the authorities face capacity constraints in policy implementation. Given the election timetable, there will be no scope for a program extension to pursue remedial policy measures should they be required. The streamlined program design should mitigate some of these risks, particularly around the capacity and political constraints.

**Figure 1. Papua New Guinea: Real and External Sector Developments**

Real GDP recovered modestly led by non-resource sector after contraction in 2020.

**Real GDP Growth**

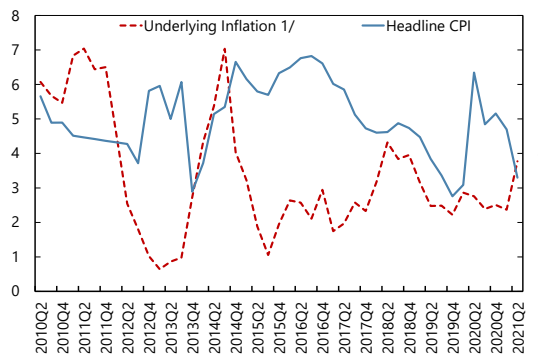
(Contributions to Percent Change)



Headline inflation has subsided after pick-up in early 2020 while underlying inflation has increased.

**CPI Inflation**

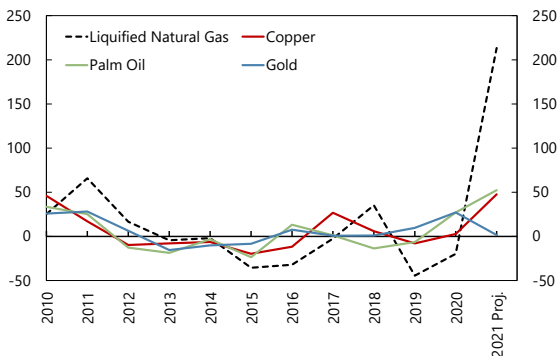
(Year-on-Year Percent Change)



Commodity prices have seen a sharp increase since 2020...

**Commodity Prices 2/**

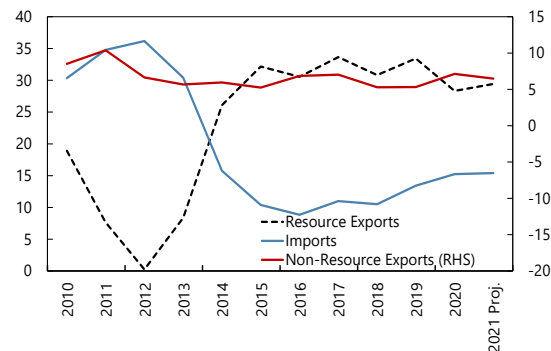
(Year-on-Year Percent Change)



... bolstering export revenues despite supply bottlenecks.

**Exports and Imports**

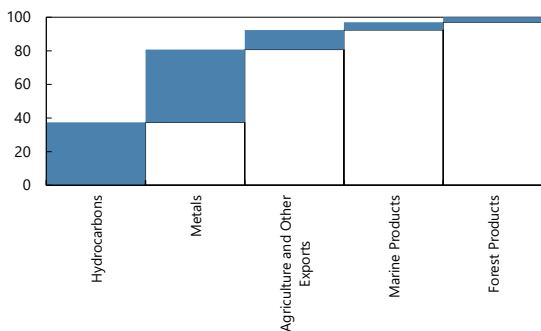
(In Percent of GDP)



Strong global demand for PNG's export goods...

**Export Product Share, 2020**

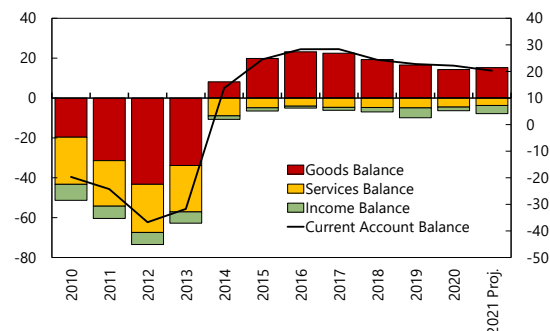
(In Percent)



... support the trade balance and current account.

**Current Account**

(In Percent of GDP)



1/ Trimmed mean estimate calculated by BPNG.

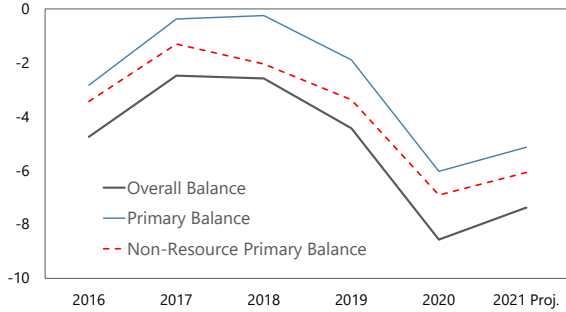
2/ IMF Commodity Price System.

Source: BPNG, IMF staff estimates and projections.

**Figure 2. Papua New Guinea: Fiscal Developments**

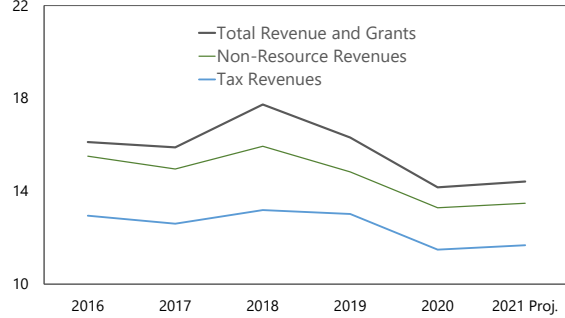
After widening significantly in 2020 due to the pandemic, the fiscal deficit narrowed in 2021...

**Fiscal Balance**  
(Percent of GDP)



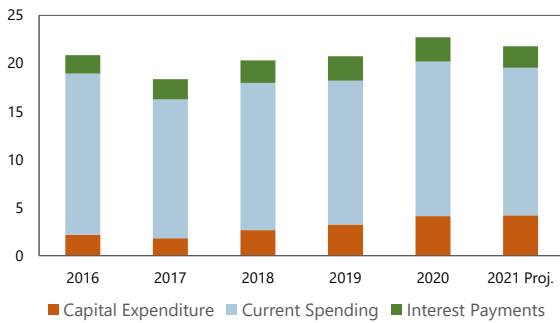
...driven by an improvement in tax revenues.

**Central Government Revenue**  
(Percent of GDP)



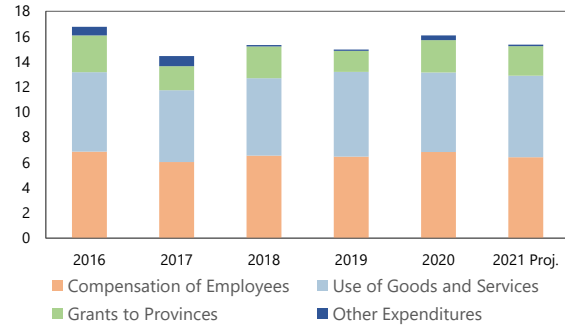
Current spending continues to take up the bulk of government spending...

**Central Government Expenditure**  
(Percent of GDP)



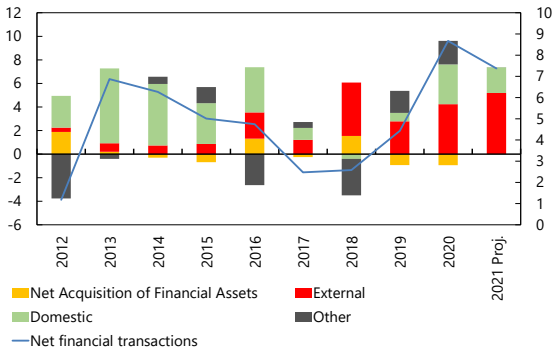
...driven by employee compensation and use of goods and services.

**Recurrent Government Expenditure**  
(Percent of GDP)



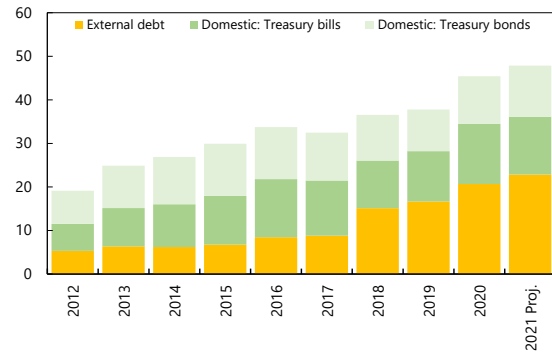
The fiscal deficits in 2020 and 2021 expected to be largely externally financed.

**Financing**  
(In Percent of GDP)



Public debt exceeds 50 percent of GDP, driven by an accumulation of external debt.

**Public Debt**  
(In Percent of GDP)



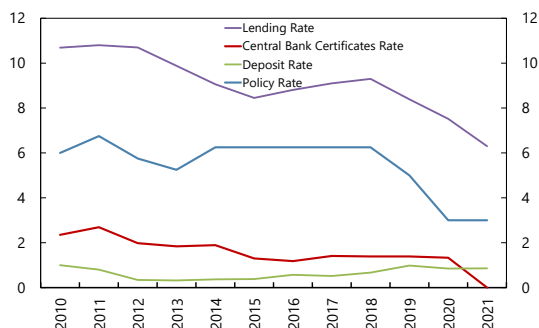
Sources: Country authorities, IMF staff estimates and projections.

**Figure 3. Papua New Guinea: Monetary and Financial Sector Developments**

*The policy rate has decreased in response to the pandemic...*

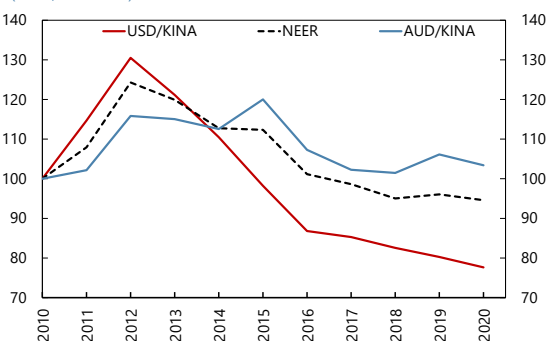
*...while the kina has depreciated slightly against the US\$.*

**Policy Rate**  
(In Percent)



Sources: IFS, and BPNG

**Exchange Rate**  
(Index; 2010=100)

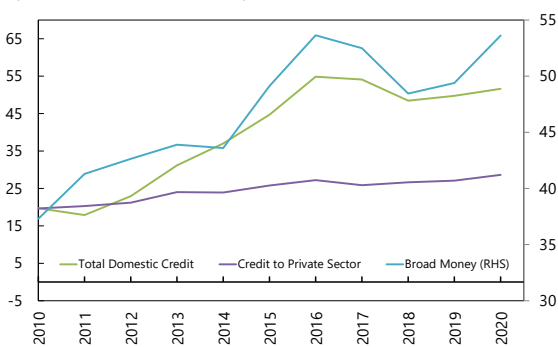


Sources: IFS and IMF Staff Calculations

*Credit to the private sector only increased slightly...*

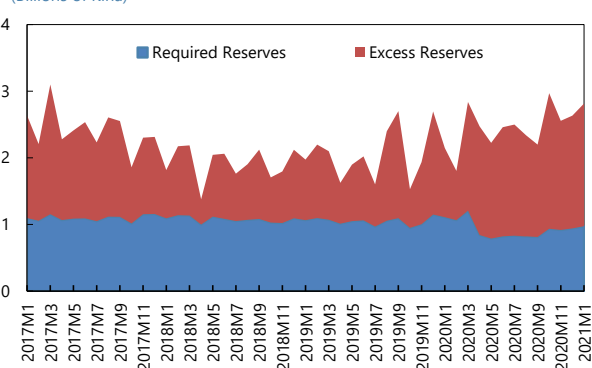
*...with continued excess liquidity in the banking system.*

**Money and Credit**  
(In Percent of Non-Resource GDP)



Sources: BPNG

**Liquidity**  
(Billions of Kina)

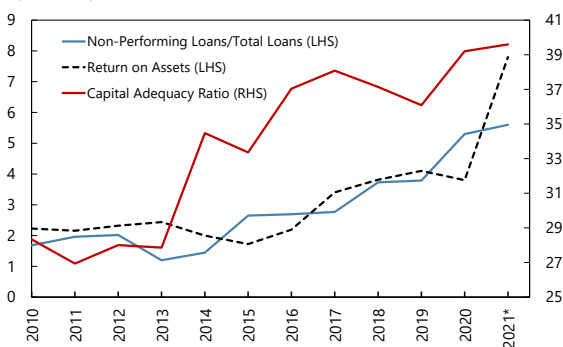


Sources: BPNG

*NPLs are on the rise, though the banks are still well-capitalized.*

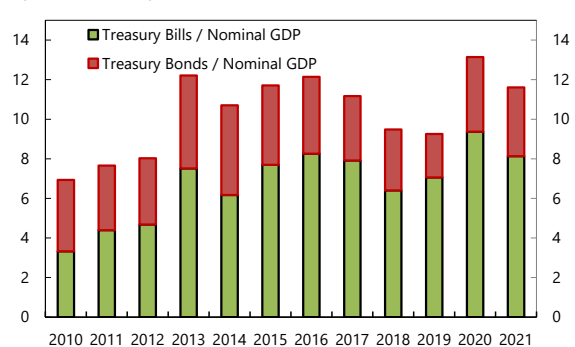
*Commercial banks have increased their holdings of government paper.*

**Financial Stability**  
(In Percent)



Sources: BPNG and IMF Staff Calculations (2021\* refers to September 2021).

**Holding of Government Securities by Commercial Banks**  
(In Percent of GDP)



Sources: BPNG and IMF Staff Calculations.

Table 1. Papua New Guinea: Selected Economic Indicators, 2016–2026

Nominal GDP (2019) US\$24.8 billion 1/  
 Population (2019): 8.6 million  
 GDP per capita (2019): US\$2,878  
 Quota: SDR 263.2 million

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
						Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(Percentage change)											
<b>Real sector</b>											
Real GDP growth	5.5	3.5	-0.3	4.5	-3.5	1.7	4.8	4.3	3.0	3.0	3.0
Resource 2/	15.3	8.1	-9.2	11.3	-8.4	-3.2	8.5	4.0	-1.2	0.0	0.1
Non-resource	1.5	1.5	4.0	1.6	-1.2	3.9	3.3	4.5	4.7	4.1	4.1
Mining and quarrying (share)	9.0	10.2	10.4	10.8	9.9	9.9	12.6	13.9	13.4	12.8	12.1
Oil and gas extraction (share)	14.8	16.5	17.5	17.6	16.4	15.7	14.3	12.7	11.6	10.8	10.1
CPI (annual average)	6.7	5.4	4.7	3.7	4.9	5.0	5.6	4.7	4.5	4.5	4.5
CPI (end-period)	6.6	4.7	4.8	2.7	5.1	5.8	5.0	4.8	4.6	4.5	4.5
(In percent of GDP)											
<b>Central government operations</b>											
Revenue and grants	16.1	15.9	17.7	16.3	14.2	14.4	15.6	15.6	15.9	16.2	16.6
<i>Of which: Resource revenue</i>	0.6	0.9	1.8	1.7	0.9	0.9	1.2	1.0	1.3	1.5	1.4
Expenditure and net lending	20.9	18.4	20.3	20.7	22.7	21.8	21.6	20.4	19.8	18.8	17.9
Net lending(+)/borrowing(-)	-4.7	-2.5	-2.6	-4.4	-8.6	-7.4	-6.0	-4.8	-3.8	-2.6	-1.4
Non-resource net lending(+)/borrowing(-)	-5.4	-3.4	-4.4	-6.2	-9.4	-8.3	-7.2	-5.9	-5.1	-4.1	-2.8
(Percentage change)											
<b>Money and credit</b>											
Domestic credit	24.6	-0.1	-6.7	5.2	2.3	12.2	10.0	10.3	8.0	7.3	7.4
Credit to the private sector	7.2	-3.8	7.4	4.1	4.2	9.1	5.6	8.8	8.6	8.6	8.6
Broad money	10.9	-0.9	-3.8	4.4	7.0	8.2	8.1	10.4	6.8	7.7	6.7
Interest rate (182-day T-bills; period average)	7.4	7.1	7.0	6.4	5.6	6.1	5.9	5.7	6.0	6.5	7.1
(In billions of U.S. dollars)											
<b>Balance of payments</b>											
Exports, f.o.b.	8.5	10.1	9.7	11.5	9.3	10.3	11.9	12.4	12.7	13.1	13.4
<i>Of which: Resource sector</i>	6.3	7.7	7.4	8.3	6.6	7.8	7.9	8.1	8.4	8.8	9.1
Imports, c.i.f.	-1.8	-2.5	-2.5	-3.7	-3.0	-3.1	-3.4	-3.8	-3.9	-4.1	-4.3
Current account (including grants)	5.9	6.5	5.9	5.7	5.2	5.4	6.5	6.6	6.8	6.9	7.0
(In percent of GDP)	28.4	28.4	24.4	22.9	21.2	20.2	22.6	21.0	20.4	19.7	18.7
Gross official international reserves	1.7	1.7	2.2	2.3	2.7	2.4	2.3	2.3	2.2	2.2	2.1
(In months of goods and services imports)	5.3	5.2	5.1	5.3	7.6	6.4	5.5	5.2	4.8	4.6	4.2
(In percent of GDP)											
<b>Government debt</b>											
Government gross debt	33.7	32.5	36.7	40.2	46.7	49.7	51.2	51.8	52.5	51.7	50.1
External debt-to-GDP ratio (in percent) 3/	8.4	12.3	14.8	17.2	22.1	22.1	22.4	22.5	20.6	19.0	17.3
External debt-service ratio (percent of exports)	1.7	0.8	1.0	1.0	8.5	4.2	2.5	3.3	5.0	4.0	4.2
<b>Exchange rates</b>											
US\$/kina (end-period)	0.3150	0.3095	0.2970	0.2935	0.2850	...	...	...	...	...	...
NEER (2005=100, end-period)	101.2	98.6	95.0	96.0	94.6	...	...	...	...	...	...
REER (2005=100, end-period)	121.2	122.3	120.9	124.8	127.4	...	...	...	...	...	...
Terms of trade (2010=100, end-period)	57.7	57.3	57.1	62.8	82.1	58.1	63.3	65.9	67.0	67.0	65.8
Nominal GDP (in billions of kina)	65.0	72.5	79.4	83.8	85.3	93.1	101.0	109.4	116.2	123.4	131.0

Sources: Department of Treasury; Bank of Papua New Guinea; and IMF staff estimates and projections.

1/ Based on period average exchange rate.

2/ Resource sector includes production of mineral, petroleum, and gas and directly-related activities such as mining and quarrying, but excludes indirectly-related activities such as transportation and construction.

3/ Public external debt includes external debt of the central government, the central bank, and statutory authorities.

**Table 2a. Papua New Guinea: Summary Operations of the  
Central Government, 2016–2026**  
(In millions of kina, unless otherwise specified)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
						Prog.	Prog.		Proj.		
<b>Revenue and Grants</b>	<b>10,486</b>	<b>11,525</b>	<b>14,086</b>	<b>13,681</b>	<b>12,093</b>	<b>13,424</b>	<b>15,730</b>	<b>17,063</b>	<b>18,493</b>	<b>20,021</b>	<b>21,683</b>
Taxes	8,422	9,141	10,476	10,918	9,802	10,868	12,401	13,638	14,960	16,380	17,930
Taxes on income, profits, and capital gains	5,286	5,317	6,119	6,070	5,669	6,011	6,393	7,446	8,373	9,352	10,095
of which: Personal income tax	2,844	3,094	3,102	3,212	3,517	3,360	3,608	4,179	4,523	4,896	5,248
of which: Company tax	2,094	1,794	1,933	1,697	1,554	1,699	1,785	2,092	2,272	2,467	2,813
Taxes on payroll and workforce	14	11	9	2	0	1	0	0	0	0	0
Taxes on goods and services	2,584	3,255	3,537	3,937	3,373	4,127	5,144	5,351	5,705	6,091	6,869
of which: GST	1,443	1,869	2,067	2,253	2,079	2,517	2,890	3,286	3,538	3,811	4,405
Taxes on international trade and transactions	537	558	811	909	760	730	864	841	883	937	966
Grants	1,430	1,440	1,836	1,776	1,425	1,643	1,825	1,725	1,775	1,825	1,875
Other Revenue	634	944	1,774	987	866	913	1,504	1,700	1,758	1,817	1,878
Resource revenue	396	676	1,429	1,242	752	871	1,194	1,136	1,509	1,887	1,888
Mining and Petroleum Taxes	92	114	775	761	183	521	594	636	1,009	1,387	1,388
Mining and Petroleum and Gas Dividends	301	562	654	381	569	350	600	500	500	500	500
Other Dividends	3	0	0	100	0	0	0	0	0	0	0
Grants from other general government units 1/	0	0	0	0	0	0	0	0	0	0	0
Non-resource revenue	10,090	10,849	12,657	12,439	11,341	12,554	14,536	15,927	16,984	18,134	19,795
<b>Expenditure</b>	<b>13,572</b>	<b>13,320</b>	<b>16,134</b>	<b>17,396</b>	<b>19,398</b>	<b>20,287</b>	<b>21,825</b>	<b>22,361</b>	<b>22,962</b>	<b>23,223</b>	<b>23,482</b>
Expense	12,157	12,005	14,022	14,679	15,887	16,375	16,810	17,337	17,978	18,282	18,581
Compensation of employees	4,463	4,376	5,198	5,424	5,832	5,973	6,050	6,359	6,389	6,622	6,866
Use of goods and services	4,103	4,138	4,879	5,639	5,388	6,022	6,100	6,079	5,952	5,816	5,680
of which: COVID-19 related 2/					505	600					
General election expenses							850				
Interest	1,248	1,525	1,853	2,129	2,160	2,085	2,324	2,390	3,141	3,171	3,373
Grants 3/	1,897	1,383	2,000	1,401	2,190	2,183	2,206	2,365	2,344	2,510	2,489
Social benefits	0	0	1	0	218	57	71	81	86	91	97
Other expenses	446	582	90	86	99	54	58	63	67	71	76
Net acquisition of non-financial assets	1,415	1,315	2,113	2,717	3,511	3,912	5,015	5,023	4,985	4,942	4,901
Gross operating balance	-1,672	-480	64	-999	-3,794	-2,951	-1,080	-275	515	1,740	3,102
<b>Net lending (+)/borrowing (-)</b>	<b>-3,087</b>	<b>-1,795</b>	<b>-2,048</b>	<b>-3,715</b>	<b>-7,305</b>	<b>-6,863</b>	<b>-6,095</b>	<b>-5,298</b>	<b>-4,469</b>	<b>-3,202</b>	<b>-1,799</b>
Primary balance	-1,839	-270	-195	-1,586	-5,145	-4,778	-3,771	-2,908	-1,329	-31	1,575
Non-resource net lending (+)/borrowing (-)	-3,483	-2,471	-3,477	-4,957	-8,056	-7,734	-7,289	-6,434	-5,978	-5,089	-3,686
Non-resource primary balance	-2,235	-946	-1,624	-2,828	-5,896	-5,649	-4,964	-4,044	-2,837	-1,918	-313
<b>Net financial transactions 4/</b>	<b>3,087</b>	<b>1,795</b>	<b>2,049</b>	<b>3,715</b>	<b>7,399</b>	<b>6,863</b>	<b>6,095</b>	<b>5,298</b>	<b>4,469</b>	<b>3,202</b>	<b>1,799</b>
Net acquisition of financial assets	857	-180	1,229	-784	-803	0	0	0	0	0	0
Net acquisition of financial liabilities	3,944	1,614	3,277	2,932	6,596	6,863	6,095	5,298	4,469	3,202	1,799
Domestic	2,495	736	-319	598	2,882	2,030	4,639	3,334	2,577	2,254	2,461
Treasury bills	1,934	531	-517	898	1,711	530	2,737	1,967	1,340	1,172	1,280
Treasury bonds	561	205	344	-300	1,266	1,601	1,902	1,367	1,237	1,082	1,181
Other accounts payable	0	0	-146	0	0	0	0	0	0	0	0
External	1,449	878	3,596	2,334	3,619	4,832	1,456	1,965	1,893	948	-663
Debt securities	0	0	1,672	0	0	0	0	0	0	0	0
Loans	1,449	878	1,924	2,334	3,619	4,832	1,456	1,965	1,893	948	-663
of which: IMF RCF					1,276	0	0	0	0	-136	-275
of which: IMF SDR allocation						1,256	0	0	0	0	0
<b>Gross government debt</b>	<b>21,944</b>	<b>23,558</b>	<b>29,120</b>	<b>33,678</b>	<b>39,852</b>	<b>46,234</b>	<b>51,750</b>	<b>56,710</b>	<b>60,986</b>	<b>63,779</b>	<b>65,578</b>
Domestic debt	16,437	17,173	17,103	19,701	22,216	24,958	28,879	32,112	34,789	36,943	39,404
Treasury bills	8,664	9,194	8,678	9,685	11,819	12,350	14,168	16,134	17,474	18,646	19,926
Treasury bonds	7,773	7,979	8,322	8,022	9,315	10,916	12,818	14,184	15,421	16,503	17,685
Loans			103	1,994	1,081	1,692	1,893	1,793	1,893	1,793	1,793
External debt	5,507	6,385	12,017	13,976	17,636	21,276	22,871	24,598	26,197	26,836	26,174
Debt securities	0	0	1,684	1,684	1,701	1,701	1,684	1,684	1,684	1,684	1,684
Loans	5,507	6,385	10,333	12,293	15,936	19,576	21,188	22,915	24,513	25,153	24,490
Memorandum items:											
Core fiscal deficit 5/	n.a.	n.a.	n.a.	n.a.	-5,753	-5,191	-4,815	-4,848	-4,269	-3,052	-1,699
Gross government debt, percentage of GDP	33.7	32.5	36.7	40.2	46.7	49.7	51.2	51.8	52.5	51.7	50.1
Contingent liabilities 6/	2,431	2,431	2,431	2,431	2,431	2,431	2,431	2,431	2,381	2,331	2,281
Future unfunded superannuation liabilities	2,431	2,431	2,431	2,431	2,431	2,431	2,431	2,431	2,381	2,331	2,281
SOE borrowing	0	0	0	0	0	0	0	0	0	0	0
Contingent liabilities, percentage of GDP	3.7	3.4	3.1	2.9	2.8	2.6	2.4	2.2	2.0	1.9	1.7
Nonresource GDP at current prices	49,518	53,139	57,280	60,088	62,884	73,836	73,836	80,306	87,235	94,246	101,835
GDP at current prices	65,038	72,522	79,405	83,846	85,339	93,079	101,003	109,407	116,228	123,377	131,014

Sources: Department of Treasury; and IMF staff estimates and projections.

1/ Withdrawals from the Stabilization Fund (mining and petroleum taxes; mining, petroleum and gas

2/ No specific allocation for COVID-19 related spending is proposed for 2022. Nevertheless, spending on healthcare and other social services is anticipated to cover any COVID-related needs.

3/ Grants include spending on wages and salaries, goods and services, and capital expenditure.

4/ Discrepancies between the overall balance and financing arise because of data coverage gaps in revenue and expenditure for extrabudgetary units, and payment arrears and cash withdrawals from trust accounts which are not fully accounted for due to

5/ Excluding payments made for settlement of domestic arrears and net acquisition of non-financial assets not classified as "core" in the Staff Monitored Program approved in February 2020.

6/ Contingent liabilities include future unfunded superannuation liabilities with Nambawan Super and SOE borrowing.

**Table 2b. Papua New Guinea: Summary Operations of the  
Central Government, 2016–2026**  
(In percent of GDP, unless otherwise specified)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
						Prog.	Prog.		Proj.		
<b>Revenue and Grants</b>	<b>16.1</b>	<b>15.9</b>	<b>17.7</b>	<b>16.3</b>	<b>14.2</b>	<b>14.4</b>	<b>15.6</b>	<b>15.6</b>	<b>15.9</b>	<b>16.2</b>	<b>16.6</b>
Taxes	12.9	12.6	13.2	13.0	11.5	11.7	12.3	12.5	12.9	13.3	13.7
Taxes on income, profits, and capital gains	8.1	7.3	7.7	7.2	6.6	6.5	6.3	6.8	7.2	7.6	7.7
Taxes on payroll and workforce	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on goods and services	4.0	4.5	4.5	4.7	4.0	4.4	5.1	4.9	4.9	4.9	5.2
Taxes on international trade and transactions	0.8	0.8	1.0	1.1	0.9	0.8	0.9	0.8	0.8	0.8	0.7
Grants	2.2	2.0	2.3	2.1	1.7	1.8	1.8	1.6	1.5	1.5	1.4
Other Revenue	1.0	1.3	2.2	1.2	1.0	1.0	1.5	1.6	1.5	1.5	1.4
Resource revenue	0.6	0.9	1.8	1.5	0.9	0.9	1.2	1.0	1.3	1.5	1.4
Mining and Petroleum Taxes	0.1	0.2	1.0	0.9	0.2	0.6	0.6	0.6	0.9	1.1	1.1
Mining and Petroleum and Gas Dividends	0.5	0.8	0.8	0.5	0.7	0.4	0.6	0.5	0.4	0.4	0.4
Other Dividends	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants from other general government units 1/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-resource revenue	15.5	15.0	15.9	14.8	13.3	13.5	14.4	14.6	14.6	14.7	15.1
<b>Expenditure</b>	<b>20.9</b>	<b>18.4</b>	<b>20.3</b>	<b>20.7</b>	<b>22.7</b>	<b>21.8</b>	<b>21.6</b>	<b>20.4</b>	<b>19.8</b>	<b>18.8</b>	<b>17.9</b>
Expense	18.7	16.6	17.7	17.5	18.6	17.6	16.6	15.8	15.5	14.8	14.2
Compensation of employees	6.9	6.0	6.5	6.5	6.8	6.4	6.0	5.8	5.5	5.4	5.2
Use of goods and services	6.3	5.7	6.1	6.7	6.3	6.5	6.0	5.6	5.1	4.7	4.3
of which: COVID-19 related 2/					0.6	0.6					
General election expenses							0.8				
Interest	1.9	2.1	2.3	2.5	2.5	2.2	2.3	2.2	2.7	2.6	2.6
Grants 3/	2.9	1.9	2.5	1.7	2.6	2.3	2.2	2.2	2.0	2.0	1.9
Social benefits	0.0	0.0	0.0	0.0	0.3	0.1	0.1	0.1	0.1	0.1	0.1
Other expenses	0.7	0.8	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Net acquisition of non-financial assets	2.2	1.8	2.7	3.2	4.1	4.2	5.0	4.6	4.3	4.0	3.7
Gross operating balance	-2.6	-0.7	0.1	-1.2	-4.4	-3.2	-1.1	-0.3	0.4	1.4	2.4
<b>Net lending (+)/borrowing (-)</b>	<b>-4.7</b>	<b>-2.5</b>	<b>-2.6</b>	<b>-4.4</b>	<b>-8.6</b>	<b>-7.4</b>	<b>-6.0</b>	<b>-4.8</b>	<b>-3.8</b>	<b>-2.6</b>	<b>-1.4</b>
Primary balance	-2.8	-0.4	-0.2	-1.9	-6.0	-5.1	-3.7	-2.7	-1.1	0.0	1.2
Non-resource net lending (+)/borrowing (-)	-5.4	-3.4	-4.4	-5.9	-9.4	-8.3	-7.2	-5.9	-5.1	-4.1	-2.8
Non-resource primary balance	-3.4	-1.3	-2.0	-3.4	-6.9	-6.1	-4.9	-3.7	-2.4	-1.6	-0.2
<b>Net financial transactions 4/</b>	<b>4.7</b>	<b>2.5</b>	<b>2.6</b>	<b>4.4</b>	<b>8.7</b>	<b>7.4</b>	<b>6.0</b>	<b>4.8</b>	<b>3.8</b>	<b>2.6</b>	<b>1.4</b>
Net acquisition of financial assets	1.3	-0.2	1.5	-0.9	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of financial liabilities	6.1	2.2	4.1	3.5	7.7	7.4	6.0	4.8	3.8	2.6	1.4
Domestic	3.8	1.0	-0.4	0.7	3.4	2.2	4.6	3.0	2.2	1.8	1.9
Treasury bills	3.0	0.7	-0.7	1.1	2.0	0.6	2.7	1.8	1.2	1.0	1.0
Treasury bonds	0.9	0.3	0.4	-0.4	1.5	1.7	1.9	1.2	1.1	0.9	0.9
Loans	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	2.2	1.2	4.5	2.8	4.2	5.2	1.4	1.8	1.6	0.8	-0.5
Debt securities	0.0	0.0	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	2.2	1.2	2.4	2.8	4.2	5.2	1.4	1.8	1.6	0.8	-0.5
of which: IMF RCF					1.5	0.0	0.0	0.0	0.0	-0.1	-0.2
of which: IMF SDR allocation						1.3	0.0	0.0	0.0	0.0	0.0
<b>Gross government debt</b>	<b>33.7</b>	<b>32.5</b>	<b>36.7</b>	<b>40.2</b>	<b>46.7</b>	<b>49.7</b>	<b>51.2</b>	<b>51.8</b>	<b>52.5</b>	<b>51.7</b>	<b>50.1</b>
Domestic debt	25.3	23.7	21.5	23.5	26.0	26.8	28.6	29.4	29.9	29.9	30.1
Treasury bills	13.3	12.7	10.9	11.6	13.8	13.3	14.0	14.7	15.0	15.1	15.2
Treasury bonds	12.0	11.0	10.5	9.6	10.9	11.7	12.7	13.0	13.3	13.4	13.5
External debt	8.5	8.8	15.1	16.7	20.7	22.9	22.6	22.5	22.5	21.8	20.0
Debt securities	0.0	0.0	2.1	2.0	2.0	1.8	1.7	1.5	1.4	1.4	1.3
Loans	8.5	8.8	13.0	14.7	18.7	21.0	21.0	20.9	21.1	20.4	18.7
Memorandum items:											
Core fiscal deficit 5/	n.a.	n.a.	n.a.	n.a.	-6.7	-5.6	-4.8	-4.4	-3.7	-2.5	-1.3
Contingent liabilities 6/	3.7	3.4	3.1	2.9	2.8	2.6	2.4	2.2	2.0	1.9	1.7
Future unfunded superannuation liabilities	3.7	3.4	3.1	2.9	2.8	2.6	2.4	2.2	2.0	1.9	1.7
SOE borrowing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonresource GDP at current prices (millions of kina)	49,518	53,139	57,280	60,088	62,884	73,836	73,836	80,306	87,235	94,246	101,835
GDP at current prices (millions of kina)	65,038	72,522	79,405	83,846	85,339	93,079	101,003	109,407	116,228	123,377	131,014

Sources: Department of Treasury; and IMF staff estimates and projections.

1/ Withdrawals from the Stabilization Fund (mining and petroleum taxes; mining, petroleum and gas

2/ No specific allocation for COVID-19 related spending is proposed for 2022. Nevertheless, spending on healthcare and other social services is anticipated to cover any COVID-related needs.

3/ Grants include spending on wages and salaries, goods and services, and capital expenditure.

4/ Discrepancies between the overall balance and financing arise because of data coverage gaps in revenue and expenditure

5/ Excluding payments made for settlement of domestic arrears and net acquisition of non-financial assets not classified as "core" in the Staff Monitored Program approved in February 2020.

6/ Contingent liabilities include future unfunded superannuation liabilities with Nambawan Super and SOE borrowing.



**Table 3. Papua New Guinea: Balance of Payments, 2016–2026**  
(In millions of US dollars, unless otherwise specified)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Actual				Est.	Prog.	Prog.	Proj.			
Current account balance	5,892	6,464	5,876	5,657	5,168	5,372	6,521	6,564	6,770	6,944	7,009
Resource	6,149	7,316	7,009	6,651	5,611	5,518	6,791	7,047	7,282	7,496	7,602
Nonresource	-258	-852	-1,133	-994	-443	-145	-269	-483	-513	-552	-593
Trade balance	6,653	7,614	7,187	7,799	6,295	7,174	8,478	8,689	8,786	8,960	9,025
Exports (f.o.b.)	8,490	10,113	9,719	11,476	9,262	10,309	11,879	12,441	12,725	13,093	13,363
Resource	7,068	8,516	8,445	9,676	7,406	8,111	9,622	10,182	10,490	10,780	10,966
Nonresource	1,422	1,597	1,274	1,800	1,856	2,198	2,257	2,259	2,235	2,314	2,397
Imports (f.o.b.)	-1,837	-2,499	-2,532	-3,677	-2,966	-3,135	-3,401	-3,752	-3,939	-4,133	-4,338
Resource	-918	-1,200	-1,436	-1,529	-1,091	-1,158	-1,263	-1,468	-1,541	-1,617	-1,697
Nonresource	-918	-1,299	-1,096	-2,147	-1,875	-1,978	-2,137	-2,285	-2,398	-2,517	-2,641
Services	-845	-1,069	-1,135	-1,229	-1,053	-988	-1,084	-1,157	-1,157	-1,157	-1,157
Income	-203	-324	-547	-1,226	-426	-1,086	-1,170	-1,262	-1,262	-1,262	-1,262
Current Transfers	286	243	371	312	352	272	298	294	403	403	403
Official	321	116	112	337	299	234	258	254	254	254	254
Private	-35	127	259	-25	52	37	40	40	149	149	149
Capital and financial account balance	-6396	-6701	-5762	-5439	-4709	-5593	-6397	-6461	-6614	-6780	-6957
Capital account balance	6	28	28	6	4	7	8	8	10	10	10
Financial account balance	-6402	-6729	-5790	-5445	-4714	-5600	-6405	-6469	-6624	-6790	-6967
Direct investment	-30	2	-7	-550	-787	-847	-987	-1,013	-1,114	-1,226	-1,348
Portfolio investment	-48	-333	-216	20	-73	-77	-84	-89	-89	-89	-89
Other investment	-6,324	-6,398	-5,566	-4,915	-3,854	-4,676	-5,333	-5,367	-5,421	-5,475	-5,530
Loans (Net)	-37	-1,056	-574	-272	577	-956	-1,997	-2,358	-2,526	-2,532	-2,601
Official	357	149	431	651	1,105	946	434	405	100	-34	-225
Private	-394	-1,205	-1,006	-922	-528	-1,902	-2,430	-2,763	-2,627	-2,498	-2,375
Commercial banks	-550	151	413	-3	-253	-268	-5	-11	0	0	0
Other private capital flows 1/	-5,344	-4,288	-4,399	-4,915	-3,854	-3,452	-3,332	-2,998	-2,894	-2,943	-2,929
Net errors and omissions	423	315	0	0	0	0	0	0	0	0	0
<b>Overall balance</b>	<b>-82</b>	<b>79</b>	<b>114</b>	<b>218</b>	<b>458</b>	<b>-221</b>	<b>124</b>	<b>102</b>	<b>155</b>	<b>164</b>	<b>51</b>
<b>Financing</b>	<b>-82</b>	<b>79</b>	<b>114</b>	<b>218</b>	<b>-458</b>	<b>221</b>	<b>-124</b>	<b>-102</b>	<b>-155</b>	<b>-164</b>	<b>-51</b>
Reserve assets	-82	79	114	218	-458	221	-124	-102	-155	-164	-51
Financing gap						0	0	0	0	0	0
Memorandum items:											
Current account (in percent of GDP)	28.4	28.4	24.4	22.9	21.2	20.2	22.6	21.0	20.4	19.7	18.7
Resource	29.6	32.2	29.1	26.9	23.0	20.8	23.5	22.6	21.9	21.3	20.3
Nonresource	-1.2	-3.7	-4.7	-4.0	-1.8	-0.5	-0.9	-1.5	-1.5	-1.6	-1.6
Net international reserves (end-year)											
In millions of U.S. dollars	1,651	1,522	2,069	2,309	2,306	2,256	2,106	2,086	2,066	2,079	1,971
Gross international reserves (end-year)	1,681	1,682	2,230	2,309	2,686	2,435	2,285	2,265	2,155	2,164	2,051
In months of nonmineral sector imports	15.3	19.0	12.4	14.8	13.0	10.9	9.5	9.1	8.3	8.0	7.3
In months of imports of goods and services	5.3	5.2	5.1	5.3	7.6	6.4	5.5	5.2	4.8	4.6	4.2
Public external debt-service-exports ratio (in percent) 2/	1.7	0.8	1.0	1.0	8.5	4.2	2.5	3.3	5.0	4.0	4.2
Public external debt-GDP ratio (in percent) 2/	8.4	12.3	14.8	17.2	22.1	22.1	22.4	22.5	20.6	19.0	17.3

Sources: Historical data from BPNG and IMF. Near-term forecasts 2020-2023 from BPNG. IMF staff projections from 2024.

1/ Includes money-transfer via offshore accounts.

2/ Public external debt includes external debt of the central government, the central bank, and statutory authorities.

**Table 4. Papua New Guinea: Monetary Developments, 2016–2026**  
(In millions of kina, unless otherwise specified)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Proj.										
Bank of Papua New Guinea (In millions of kina; end of period)											
Net foreign assets	4,716	5,026	6,856	7,255	7,417	6,535	6,009	5,939	5,555	5,586	5,222
Foreign assets	5,258	5,606	7,450	7,867	9,424	8,542	8,016	7,946	7,562	7,593	7,229
Foreign liabilities	542	580	594	612	2,007	2,007	2,007	2,007	2,007	2,007	2,007
Net domestic assets	1,716	337	-1,595	-1,340	-1,370	-1,539	-593	-475	-358	-242	-128
Domestic credit	3,012	2,405	1,119	1,315	-918	391	740	792	846	901	959
Net credit to government	2,858	2,369	1,088	1,251	-1,003	305	654	706	760	815	873
Claims	3,567	2,852	2,646	2,312	1,615	2,923	2,973	3,025	3,078	3,132	3,188
<i>Of which:</i> Loans: IMF SDR Allocation						1,260	1,260	1,260	1,260	1,260	1,260
Central government deposits	708	483	1,558	1,061	2,619	2,619	2,319	2,319	2,318	2,317	2,316
Credit to other sectors	154	36	31	64	86	86	86	86	86	86	86
Other items, net	-1,297	-2,068	-2,714	-2,655	-453	-1,930	-1,333	-1,267	-1,203	-1,143	-1,086
<i>Of which:</i> Central bank securities	-1,361	-2,092	-2,405	-1,778	-1,614	-6,882	-4,755	-4,517	-4,291	-4,077	-3,873
Reserve money	6,431	5,363	5,261	5,915	6,046	4,996	5,416	5,464	5,197	5,344	5,095
Currency in circulation	2,115	2,076	2,154	2,300	2,434	2,558	2,673	2,789	2,963	3,145	3,339
Deposits of other depository corporations	4,316	3,287	3,106	3,615	3,612	2,438	2,743	2,675	2,234	2,199	1,755
Required reserves	2,125	2,118	2,049	2,090	1,575	1,721	1,877	2,090	2,249	2,436	2,610
Excess reserves	2,191	1,169	1,058	1,525	2,037	717	866	585	-14	-237	-854
Other deposits	0	0	0	0	0	0	0	0	0	0	0
Depository Corporations Survey (In millions of kina; end of period)											
Net foreign assets	4,928	5,498	7,018	7,666	7,831	6,987	6,499	6,469	6,118	6,184	5,858
Net domestic assets	17,489	16,710	14,350	14,652	16,049	18,844	21,430	24,360	26,864	29,343	32,035
Domestic credit	22,929	22,916	21,371	22,477	22,990	25,785	28,370	31,301	33,805	36,284	38,975
Net credit to central government	9,009	9,155	6,806	7,150	7,451	9,019	10,779	12,358	13,415	14,330	15,328
Claims on other sectors	13,920	13,761	14,566	15,327	15,539	16,766	17,592	18,943	20,390	21,954	23,647
Claims on the private sector	11,379	10,945	11,759	12,238	12,754	13,919	14,701	15,989	17,368	18,864	20,483
Other items, net	-5,440	-6,207	-7,022	-7,825	-6,941	-6,941	-6,941	-6,941	-6,941	-6,941	-6,941
Broad money	22,417	22,208	21,368	22,318	23,880	25,831	27,928	30,829	32,983	35,527	37,892
Narrow money	16,032	16,283	15,780	17,125	18,916	21,065	23,354	26,438	28,767	31,480	34,007
Currency outside other depository corporations	1,580	1,523	1,579	1,656	1,890	1,814	1,742	1,672	1,605	1,541	1,479
Demand deposits	14,452	14,759	14,201	15,469	17,026	19,251	21,612	24,766	27,162	29,939	32,528
Quasi-money	6,323	5,863	5,526	5,193	4,964	4,765	4,575	4,392	4,216	4,047	3,885
Securities other than shares	62	62	62	0	0	0	0	0	0	0	0
(Annual percentage change)											
Net foreign assets	-16.1	11.6	27.7	9.2	2.1	-10.8	-7.0	-0.5	-5.4	1.1	-5.3
Net domestic assets	21.9	-4.5	-14.1	2.1	9.5	17.4	13.7	13.7	10.3	9.2	9.2
Net domestic credit	24.6	-0.1	-6.7	5.2	2.3	12.2	10.0	10.3	8.0	7.3	7.4
<i>Of which:</i> Private sector	7.2	-3.8	7.4	4.1	4.2	9.1	5.6	8.8	8.6	8.6	8.6
Broad money	10.9	-0.9	-3.8	4.4	7.0	8.2	8.1	10.4	7.0	7.7	6.7
<i>Memorandum items:</i>											
Reserve money (percentage change)	24.4	-16.6	-1.9	12.4	4.8	-17.4	8.4	0.9	-4.9	2.8	-4.7
Gross international reserves (in millions of U.S. dollars)	1,656	1,735	2,213	2,309	2,686	2,435	2,285	2,265	2,155	2,164	2,060
Nominal nonresource GDP/Broad money	2.2	2.4	2.7	2.7	2.6	2.7	2.6	2.6	2.6	2.7	2.7

Sources: Bank of Papua New Guinea; and IMF staff estimates and projections.

**Table 5. Papua New Guinea: Financial Stability Indicators, 2016–21<sup>1/</sup>**  
(In percent, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021 Sep.
<b>Capital Adequacy</b>						
Capital to risk-weighted assets 2/	37.0	38.1	37.1	36.1	39.2	39.6
Tier 1 capital to risk-weighted assets	29.8	30.8	29.6	28.2	31.9	31.4
<b>Asset Quality</b>						
Nonperforming loans to total loans	2.7	2.8	3.7	3.8	5.3	5.6
Past due loans to total loans	6.7	5.4	5.1	5.1	n.a.	n.a.
Provision for losses to NPL	164.5	180.0	142.9	152.4	n.a.	n.a.
<b>Earnings and Profitability</b>						
Return on assets	2.2	3.4	3.8	4.1	3.8	7.8
Return on equity 3/	16.7	25.1	26.4	28.4	25.6	54.4
<b>Liquidity</b>						
Liquid assets to total assets	46.9	16.9	15.9	17.7	18.3	18.2
Loan-to-deposit ratio	63.3	65.8	71.4	71.3	65.6	61.5
<b>Other</b>						
Capital to total assets 2/	16.3	14.2	14.5	14.0	14.5	13.5
Risk-weighted assets to total assets	43.9	46.6	49.3	50.8	47.5	43.5
Sources: Bank of Papua New Guinea; and IMF staff calculations.						
1/ Position at end-period.						
2/ Capital base includes Tier 1 and 2 capital.						
3/ Return on equity is calculated with Tier 1 capital.						

## Appendix I. External Sector Assessment

**Overall Assessment:** Staff's judgement is that PNG's external position is weaker (current account gap of -2.2 to -2.4 percent of GDP depending on the model) than implied by fundamentals and desirable policies given its overvalued real effective exchange rate.

**Potential Policy Responses:** The assessment of Kina overvaluation is consistent with limited exchange rate adjustment to international inflation differentials or terms of trade movements. Faster real exchange rate depreciation would help support competitiveness of non-resource exports and address foreign exchange shortage. Improved FX operations and liquidity management would also strengthen the BPNG's ability to manage inflation and the real exchange rate.

### Foreign Assets and Liabilities: Position and Trajectory

**Background.** PNG does not produce international investment position (IIP) data.

### Current Account

#### Papua New Guinea: Model Estimates for 2020 (in percent of GDP)<sup>1</sup>

	CA model	REER model
<b>CA-Actual</b>	<b>21.2</b>	
Cyclical contributions (from model) (-)	0.3	
COVID-19 adjustor (+) 1/	0.6	
Additional temporary/statistical factors (+)	0.0	
Natural disasters and conflicts (-)	0.0	
<b>Adjusted CA</b>	<b>21.5</b>	
<b>CA Norm</b> (from model) 2/	<b>-0.6</b>	
Adjustments to the norm (+)	0.0	
<b>Adjusted CA Norm</b>	<b>-0.6</b>	
<b>CA Gap</b>	<b>22.2</b>	<b>-2.2</b>
o/w Relative policy gap	0.2	
Elasticity	-0.37	
<b>REER Gap (in percent)</b>	<b>-60.1</b>	<b>6.0</b>
1/ Cyclical adjustment to account for the temporary impact of the pandemic on tourism (1.6 percent of GDP) has been included.		
2/ Cyclically adjusted, including multilateral consistency adjustments.		

**Background.** In 2020, goods exports volumes increased by around 3 percent compared to 2019, while the value of exports dropped by 19 percent, owing mainly to weak 2020 commodity prices, including for liquified natural gas (down 20 percent) and crude oil (down 33 percent). However, the gold price rose by a record 27 percent year on year, compensating for the 19 percent drop in gold export volumes. Prices of agricultural goods recorded a modest decline. As lower export

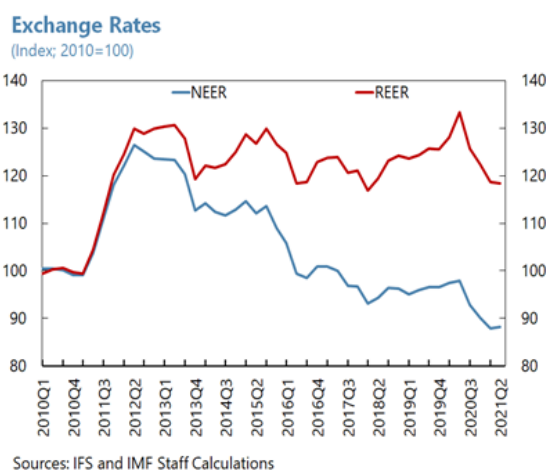
revenues in 2020 were largely offset by weaker import demand, the 2020 current account (CA) surplus reduced marginally from 2019, to 21 percent of GDP.

**Assessment.** The EBA-lite CA model suggests a CA gap (which is the difference between the CA and the CA norm in cyclically adjusted terms) of +22 percent of GDP. In the CA model, the Covid-19 adjuster amounts to 0.6 percent of GDP, based on a tourism balance of 1.6 percent and an assumed drop of 75 percent as a result of travel restrictions and collapsing demand for tourism services. The elasticity of the CA (trade balance) to the real effective exchange rate (REER) is estimated at -0.37 (Nakatari 2017). However, long-standing challenges in classifying large income account outflows, including external debt service payments related to resource projects, under financial account rather than the current account significantly distort results from standard tests for PNG’s current account. The CA model results are, therefore, discounted.

Based on the REER model, the CA gap is estimated at -2.2 percent of GDP. At negative 2.2 percent of GDP, the CA is *weaker* than implied by fundamentals.

### Real Exchange Rate

**Background.** While the kina has significantly depreciated in nominal terms (NEER) over the past few years, the REER has remained highly stable (see Figure). The 2020 Article IV Staff Report (Box 1) estimated a REER gap of around 11 percent for 2019, based on preliminary data. Meanwhile, in 2020, the Kina nominally depreciated 2.9 percent against the US dollar and 2.6 percent against the Australian dollar.



**Assessment.** The REER model suggests that the kina is *moderately overvalued* by around 6 percent. The overvaluation of the Kina contributes to continued pressures in the domestic foreign exchange (FX) market.

### Capital and Financial Accounts: Flows and Policy Measures

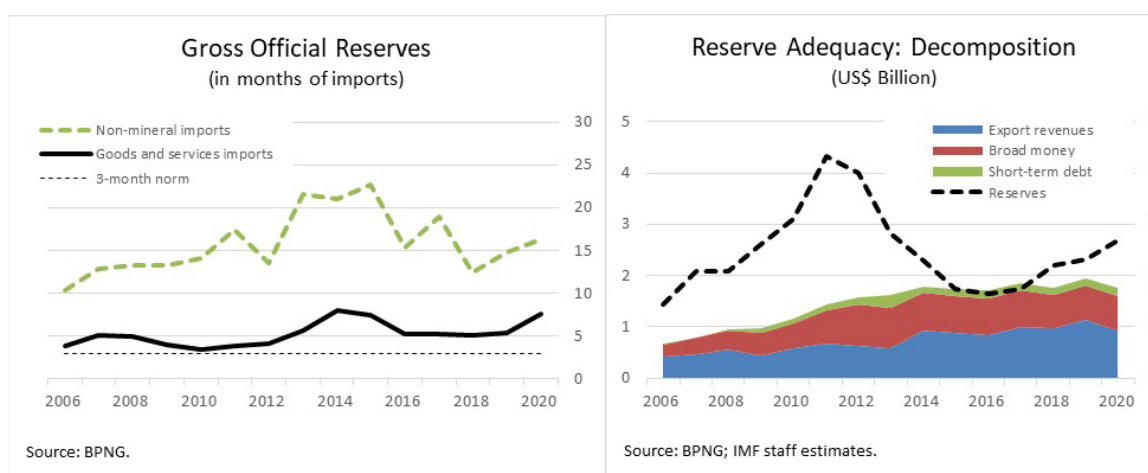
**Background.** The capital account balance continues to be very small (US\$4 million, net; with credits of US\$9.9 million and debits of US\$5.9 million). The financial account balance has improved by 13 percent from 2019. Net direct investment in 2020 amounted to around -800 million, driven by depressed direct investment into PNG. Portfolio investment and financial derivatives have traditionally been negligibly small. Most investment flows, including offshore flows, are captured as other investment (US\$3.9 billion).

**Assessment.** PNG maintains exchange restrictions subject to IMF approval under Article VIII, Section 2(a) of the IMF’s Articles of Agreement arising from: (i) the requirement to obtain a tax clearance certificate evidencing the payment of all taxes prior to making payments or transfers for certain current international transactions; and (ii) the rationing of FX, which results in undue delays and arrears in current international payments. Staff recommends eliminating these

impediments to exchange. Their removal would imply the need to adjust the foreign exchange system, including allowing the exchange rate to adjust flexibly to a market clearing level to eliminate the kina overvaluation, and clearing the existing backlog of FX orders to reduce delays in providing FX.

## FX Intervention and Reserves Level

**Background.** With limited domestic and external borrowing opportunities, PNG's fiscal and balance-of-payment financing gaps typically need to be financed with reserves. In 2020, gross reserves increased to 8 months of total imports (or 13 months of non-mineral imports, respectively), well exceeding the 3-month norm (left chart). Over the past few years, the BPNG has been targeting a gross international reserves level of no less than US\$1.8-2.0 billion to meet the economy's needs for FX (right chart). ARA metrics are generally not available for PNG. The staff-assessed reserve adequacy for PNG therefore utilizes data available on export revenues, broad money, and short-term debt liabilities.



**Assessment.** Significantly higher commodity prices projected for 2021 compared to 2020 are expected to compensate for continued supply constraints owing mainly to the impacts of the pandemic on resource-sector production. The 2021 SDR allocation provides for an additional US\$360 million boost to reserves and will temporarily help reduce foreign exchange imbalances and ease FX shortages, at least for a few months before the SDRs are converted into hard currency and subsequently used for budget support in 2021, as per the government's plans. Further, in recent years the disbursement of external project financing and bilateral budget support typically occurred towards the end of the year, implying that FX pressures subside by year-end. The reserve adequacy assessment (right chart) suggests that a floor of US\$2.0 billion appears adequate. This floor is also included in the SMP as a quantitative target. Going forward, it will be important to address FX shortages with the aim of a gradual return to kina convertibility, including eliminating exchange restrictions and multiple currency practices, and the adoption of a market-determined exchange rate.

## Appendix II. Performance Under the February 2020–June 2021 Staff-Monitored Program

### A. Quantitative Targets (QTs)/Indicative Targets (ITs), Appendix Table 2.1

#### *Performance Against QTs for June 2020*

**1. Met (4 of 6):** The continuous zero ceiling on the incurrence of external debt service payment arrears was met, as was the continuous ceiling on the contracting of non-concessional external debt. The stock of net international reserves of the BPNG remained above the agreed floor. Finally, the BPNG did not provide direct monetary financing to the government, as agreed, but there was greater recourse to the Temporary Advance Facility (TAF), the overdraft facility provided to the government. The limits on the TAF were quintupled, via an amendment to the Central Banking Act, to allow spending while waiting for delayed disbursement of external financing. The temporary advances drawn (reaching a maximum of about 10 percent of 2020 total revenue and grants) were fully repaid by the end of the fiscal year, and the authorities have prepared operational guidelines on the use of TAF. The Treasury has also released a Terms of Reference for a review of the Central Banking Act, to strengthen governance and implement safeguards against misuse of TAF. IMF support for the review has been requested.

**2. Unmet (2 of 6):** The core fiscal deficit exceeded the agreed ceiling, and the provision of foreign exchange to authorized FX dealers was below the agreed floor. However, both outcomes were largely a consequence of the pandemic. The fiscal deficit was driven by lower tax revenues, as expenditure was relatively well contained. The larger deficit was substantially financed by official donors, including the IMF RCF. The shortfall in FX provision was due to the lower-than-expected FX inflows from LNG exports.

#### *Performance Against Proposed QTs for December 2020*

**3. Met (4 of 6):** The authorities met the program targets on contracting of new non-concessional borrowing, non-accumulation of external arrears, floor on the stock of international reserves, and the zero ceiling on monetary financing of the budget (see above).

**4. Unmet (2 of 6):** The core fiscal deficit exceeded both the program ceiling and the revised projection by a significant margin, partly due to COVID-related spending. The provision of foreign exchange to authorized FX dealers was below the agreed floor.

### B. Structural Benchmarks (Appendix Table 2.2)

**5.** Progress on Structural Benchmarks was mixed. Thirteen out of seventeen original SBs were met, five with delay (Table 2). The unmet SBs were deemed important enough that IMF staff required corrective prior actions and additional/alternative SBs for completion of the First Review, most of which were completed and verified just before the program expired (Table 3).

- 6. Met (13 of 17):** The authorities appointed a permanent Commissioner General of the Internal Revenue Commission (IRC), established an implementation unit for the Medium-Term Revenue Strategy (MTRS), set its objectives and milestones, and began working on the implementation of the Tax Administration Act. A review of existing SOE dividend policies has been completed, as well as a plan for the implementation of the Sovereign Wealth Fund. A review of institutional arrangements for Tax and Customs revenue collection was completed with IMF technical assistance (TA). Treasury has started preparing domestic debt issuance plans based on cash forecasts. On the monetary side, BPNG completed a liquidity forecast framework and increased the spread around the base repo rate. On governance reforms, an SOE reform plan was implemented with Asian Development Bank (ADB) support, an anti-corruption strategy was developed, and the ICAC Act was passed and published with delay but is facing a court challenge.
- 7. Unmet (4 of 17):** An independent audit of government employment and payroll practices was not completed. Instead, as a corrective first step, a pilot payroll cleansing exercise was completed at the Treasury and an annual workplan approved. The MTRS Steering Committee did not meet monthly, but the authorities committed to bi-monthly meetings and started reporting to the high-level Budget Management Committee, which has participation at a ministerial level. Staff remain concerned about accountability of IRC. The Income Tax Act was not passed, but a draft bill has been posted for public comments. BPNG did not seek IMF TA on monetary and FX market operations, though they reported receiving related TA from the Reserve Bank of Australia.
- 8. Most additional commitments, made in early 2021 were met (Appendix Table 2.3):** an annual cash flow forecast reflecting the 2021 Budget, in line with program commitments was prepared; an annual workplan on public sector cost controls was developed; taxpayer services improvements were implemented; staffing regulations for the ICAC and the Whistleblower Acts were prepared but were not issued for the Whistleblowers Act, as the authorities determined that implementation of the Act did not require the issuance of subsidiary regulations; operational guidelines on the use of the TAF were issued; and the Terms of Reference for a review of the Central Bank Act were released and shared with staff.



**Appendix II. Table 1. Papua New Guinea: Quantitative and Indicative Targets Under the February 2020-June 2021 Staff Monitored Program<sup>1/</sup>**  
(In billions of kina unless otherwise indicated)

	2020												2021						
	End-March Indicative Target			End-June Quantitative Target			End-September Indicative Target				End-December Quantitative Target				End-March Indicative Target		End-June Quantitative Target		
	Prog.	Outcome <sup>2</sup>	Status <sup>2</sup>	Prog.	Outcome	Status	Prog.	Prop. revised	Outcome	Status <sup>3/</sup>	Revised	Prog.	Prop. revised	Outcome	Status <sup>3/</sup>	Revised	Proposed	Outcome	Proposed
								First Review <sup>2/</sup>		Prog.	Revised		First Review <sup>2/</sup>		Prog.	Revised	First Review <sup>2/</sup>		First Review <sup>2/</sup>
<b>Quantitative Targets</b>																			
Core fiscal deficit of the central government (cumulative ceiling within the year)	0.847	0.746	Met	1.694	1.952	Not Met	2.386	4.107	2.623	Not Met	Met	3.079	5.300	6.427	Not Met	Not Met	1.033	n.a.	2.067
New non-concessional external debt contracted or guaranteed by the central government or the BPNG with maturity of one year or more (cumulative ceiling over the duration of the program, US\$ millions)	0	0	Met	300	21.000	Met	700	700	20.05	Met	Met	1,200	1,200	951	Met	Met	1,947	n.a.	1,947
External debt service arrears of the central government (ceiling, US\$ millions)	0	0	Met	0	0.000	Met	0	0	0	Met	Met	0	0	0	Met	Met	0	0	0
Stock of net international reserves of the BPNG (floor, US\$ millions)	1,800	2,117	Met	1,800	1,924	Met	1,800	1,800	1,693	Not Met	Not Met	1,800	1,800	2,306	Met	Met	1,800	1,936	1,800
BPNG provision of foreign exchange to authorized FX dealers (cumulative floor within the year, US\$ millions)	180	130.1	Not Met	360	279.9	Not Met	540	540	429.9	Not Met	Not Met	720	720	579.4	Not Met	Not Met	180	n.a.	360
BPNG direct monetary financing of the public sector	0	0	Met	0	0	Met	0	0	0	Met	Met	0	0	0	Met	Met	0	n.a.	0
<b>Indicative Targets</b>																			
Tax revenue of the central government (cumulative floor within the year)	2,417	2,328	Not Met	4,834	4,551	Not Met	8,038	7,272	7,569	Not Met	Met	11,242	10,170	9,802	Not Met	Not Met	2,752	n.a.	5,504
Central government core current expenditure (cumulative ceiling within the year)	3,929	2,918	Met	7,858	5,853	Met	11,072	11,262	9,219	Met	Met	14,409	14,532	15,528	Not Met	Not Met	3,456	n.a.	6,912
New domestic payments arrears of the central government (ceiling)	0	0	Met	0	n.a.	n.a.	0	0	0	Met	Met	0	0	0	Met	Met	0	n.a.	0
Social and other priority spending (cumulative floor within the year)	0.893	n.a.	n.a.	1.787	1.619	Not Met	3.126	3.354	n.a.	n.a.	n.a.	4.466	4.791	3.997	Not Met	Not Met	0.900	n.a.	1.800
Central government clearance of arrears and additional capital spending (cumulative ceiling within the year)	0.388	n.a.	n.a.	0.820	0.300	Met	1.156	1.156	n.a.	n.a.	n.a.	1.552	1.552	0.377	Met	Met	0.233	n.a.	0.465
<b>Memorandum Items:</b>																			
Overall deficit of the central government (core deficit plus payments of arrears and additional capital spending) (cumulative ceiling within the year)	1,235	n.a.		2,514	2,086		3,542	5,263	3,259			4,631	6,852	7,304			1,266		2,532
Concessional borrowing (ceiling, millions of US\$)	620	n.a.		620	385		620	620	363			620	620	363			223		446
Estimated stock of arrears to be cleared in 2020 (billions of kina)	1,052	n.a.		0.852	n.a.		0.352	0.352	0.916			0.000	0.000	0.675			0.000		0.000

Sources: Papua New Guinea authorities; and Fund staff estimates.

<sup>1/</sup> For definitions and adjustments see the Memorandum of Economic and Financial Policies and the Technical Memorandum of Understanding (Pages 35-54 in IMF Country Report No. 20/95).

<sup>2/</sup> Refers to targets agreed with the staff team during the First Review mission, but not officially approved by IMF management as the Review was not completed.

<sup>3/</sup> Program performance under "Prog." refers to assessment against targets set out at program approval in February 2020. Performance against "Revised" refers to targets set during the First Review mission, which were not officially approved by IMF Management as the Review was not completed.  
n.a. = not available.

**Appendix II. Table 2. Papua New Guinea: Structural Benchmarks under the February 2020-June 2021<sup>1/</sup>**

	<b>Measure</b>	<b>Purpose</b>	<b>Implementation date</b>	<b>Status</b>
<b>Fiscal Measures</b>				
1	Complete a detailed independent audit of government employment and payroll practices and program of reform	Improved control over government hiring and payroll to contain employee compensation expenditures	End-April 2020	Not met Pilot payroll cleansing completed May 2021.
2	Appoint a permanent IRC Commissioner General	Support the implementation of the MTRS and improve revenue collection	End-March 2020	Met
3	MTRS Steering Committee to set specific MTRS implementation objectives and milestones to be achieved in 2020, based on PNG IRC 2020 Annual Plan	Support the implementation of the MTRS and improve revenue collection	End-February 2020	Not met Completed May 2020
4	Establish an adequately staffed MTRS implementation unit within IRC	Support the implementation of the MTRS and improve revenue collection	End-April 2020	Met
5	Hold monthly meetings of the MTRS Steering Committee to review progress against agreed objectives and milestones	Support the implementation of the MTRS and improve revenue collection	End-April 2020	Not met Moved to bi-monthly meetings and reporting to Budget Management Committee
6	Conclude revisions of the Income Tax Act and pass the act in Parliament and publish in the gazette	Support the implementation of the MTRS and improve revenue collection	End-December 2020	Not met Expected end-2021. Draft bill posted for public comments.

**Appendix II. Table 2. Papua New Guinea: Structural Benchmarks under the February 2020-June 2021 (continued)**

	<b>Measure</b>	<b>Purpose</b>	<b>Implementation date</b>	<b>Status</b>
7	Begin implementation of the Tax Administration Act, with a dedicated project team to implement critical provisions on a staged basis so that full implementation is achieved by January 2021	Support the implementation of the MTRS and improve revenue collection	End-June 2020	Met  Monthly reporting recommended
8	Complete a review led by Treasury of the best institutional arrangements for Tax and Customs revenue collection in PNG	Support the implementation of the MTRS and improve revenue collection	End-September 2020	Not met  Completed via IMF TA, May 2021
9	Complete a review of existing SOE dividend policies to clarify rules and timing for dividend payments to government	Better control over resource sector revenue	End-September 2020	Met
10	Develop a plan for full implementation of the Sovereign Wealth Fund (SWF), including consistency of the current arrangements with PNGs long-term development interests	Implementation of the medium-term fiscal framework to manage natural resource project revenue and reduce pro-cyclicality of fiscal policy	End-December 2020	Met
11	Prepare a treasury debt issuance and external debt disbursement plan based on cash forecasts, and share regularly updated projections with BPNG	Strengthen liquidity management and budget execution	End-March 2020	Not met Completed April 2020
<b>Monetary and Exchange Rate Measures</b>				
12	Complete a liquidity forecast framework at the BPNG in coordination with Treasury	Strengthen monetary operations of the BPNG to prepare for flexible exchange rate regime	End-June 2020	Met

**Appendix II. Table 2. Papua New Guinea: Structural Benchmarks under the February 2020-June 2021 (concluded)**

	<b>Measure</b>	<b>Purpose</b>	<b>Implementation date</b>	<b>Status</b>
13	Increase the spread around the base rate for repo operations to 100 basis points	Promote development of the interbank money market	End-March 2020	Met
14	BPNG to seek additional TA to implement measures to strengthen monetary and FX market operations, and re-establish a functioning interbank FX market	Promote development of the interbank money market	End-June 2020	Not met
<b>Governance</b>				
15	Implementing SOE reform plan approved by the National Executive Council (NEC) in consultation with international partners such as ADB and Australia	Promote public sector efficiency, promote non-resource sector development, and minimize risks to fiscal and financial stability	End-June 2020	Not met  Completed October 2020
16	Develop a comprehensive and prioritized strategy for reducing corruption, coordinating across relevant government agencies, with technical assistance	Safeguard public resources, improve transparency and create a better business climate	End-November 2020	Met
17	Passage of the ICAC Act in the Legislature and publish the Act in the National Gazette	Safeguard public resources, improve transparency, and create a better business climate	End-December 2020	Not met The Act has been passed and published in May 2021.
1/ See MEFP/TMU on pages 35-54 in <a href="#">IMF Country Report No. 20/95</a> .				

**Appendix II. Table 3. Papua New Guinea: Staff Level Agreement of First Review of the February 2020-June 2021 SMP—Proposed Prior Actions and New and Modified Structural Benchmarks<sup>1/</sup>**

	<b>Measure</b>	<b>Purpose</b>	<b>Implementation date</b>	<b>Preliminary Status</b>
1	Completion of an annual cash flow forecast reflecting the 2021 Budget in line with program commitments	Good fiscal management	Prior Action	Met
2	Completion of a pilot payroll cleansing exercise and setting out the results in a workshop to be taken across the wider public service.	Improve expenditure control	End-May	Met Previously SB 1 in Table 2
3	Development and approval of an annual workplan by the Office for Organization, Staffing, and Personnel Emoluments Audit Committee (OSPEAC) on public sector cost controls.	Improve expenditure control	End-May	Met Previously SB 1 in Table 2
4	IRC and other agencies report to the Budget Management Committee (BMC) on progress against 2020 MISC-determined objectives and milestones.	Support the implementation of the MTRS and improve revenue collection	Prior Action	Met Previously SB 5 in Table 2
5	Bi-monthly reports for discussion at the BMC on progress on the IRC Annual Plan and MTRS.	Support the implementation of the MTRS and improve revenue collection	On-going	Met Previously SB 5 in Table 2
6	Review of the best institutional arrangements for Tax and Customs revenue collection in PNG to be submitted to MISC for decision.	Support the implementation of the MTRS and improve revenue collection	End-May 2021	Met Reschedule previously SB 8 in Table 2
7	Revised Non-Tax Revenue Administration Bill submitted to NEC for clearance.	Support revenue collection	End May 2021	Not met
<p>1/ Includes rescheduling of structural benchmarks approved at the time of the SMP request that have not been met. A staff-level agreement was reached to support the completion of the first SMP review at end-March 2021, but the authorities were only able to confirm that the agreed prior actions (PAs) were met on the last day of the program. Therefore, the review was not completed.</p>				

**Appendix II. Table 3. Papua New Guinea: Staff Level Agreement of First Review of the February 2020-June 2021 SMP—Proposed Prior Actions and New and Modified Structural Benchmarks (concluded)**

	<b>Measure</b>	<b>Purpose</b>	<b>Implementation date</b>	<b>Preliminary Status</b>
8	Improve taxpayer services through simplification of tax forms, public awareness raising and business kits.	Improve voluntary compliance	End-May 2021	Met for small business tax only
9	IRC to circulate to the MISC an approved and costed work plan for implementation of an improved debt case management system.	Improve the accuracy of the debt register to allow active management of tax arrears.	End-May 2021	Not met
10	BPNG to issue, in agreement with Treasury and Finance, operational guidelines on the use of the TAF.	Ensure good cash flow management of the annual budget	Prior Action	Met
11	Treasury to release Terms of Reference for review of the Central Bank act including review of direct provision of financing to the government by BPNG.	Avoid inappropriate monetary financing of fiscal deficits	Prior Action	Met
12	Prepare implementing staffing regulations for the ICAC and Whistleblower Acts for submission to NEC.	Safeguard public resources, improve transparency and create a better business climate	End-May 2021	Met Note: Did not issue implementing regulations for Whistleblower Act

## Appendix III. Letter of Intent

16 December 2021

Ms. Kristalina Georgieva  
Managing Director  
International Monetary Fund  
Washington, DC 20431

Dear Ms. Georgieva

Papua New Guinea continues to be affected by the world-wide COVID outbreak. Costs for the Government have risen at the same time as our revenue initiatives have been impacted by the ongoing pandemic. The government has balanced the need to continue investment in the country's infrastructure, service delivery and economy with the need to ensure long term sustainability of our finances.

Our 2020 Final Budget Outcome showed that expenditure by the Government of PNG was actually slightly below the pre-COVID19 estimate, even after over K500 million of COVID-19 related expenditure was absorbed into the budget. The Mid-Year Economic and Fiscal Outlook for 2021 showed the execution of fiscal policies for the year is in line with our original budget projections.

The government continues its efforts in budget repair, including the repayment of historic arrears and expanding capital investment. We view this expansion of capital spending, through good, cheap loans, to be vital to growth.

The economic philosophy of the government has refocused to broad-based growth of the non-resource sector, while simultaneously working to conclude important resource agreements. We will target 5% real growth in the non-extractive sector in the medium term. This will help us restore real non-resource GDP per capita back to the 2014 levels by 2028, after a significant deterioration.

Our 2022 budget and medium-term plan will see our deficit narrowing from K7.3 billion in 2020 to at most, to K6.1 bn in 2022. Indeed, we intend to pursue a more ambitious consolidation strategy than envisaged under the program, should conditions permit, with the aim of achieving a cumulative consolidation of over K5 billion between 2020 and 2026, culminating with a budget surplus in 2027.

Our previous Staff Monitored Program with the IMF, while disrupted by COVID, saw some important reforms take place: we established guidelines around our temporary access loan facility with BPNG, set up reporting on our revenue reforms, established an Independent Advisory Group (IAG) to review the central bank act. We have been grateful for the IMF's input into this process.

We are also committed to continuing and strengthening our reform program – further fiscal consolidation while making shifts towards capital investment and fully funding the 2022 election;

improving wage control through improving the integrity of staffing data; continuing refinements to our tax administrative legislation; and working towards improvements in the governance of the central bank. These reforms we believe will strengthen our fiscal position, improve our oversight of the budget and allow us to undertake subsequent reforms in the future.

This government has passed the long-awaited Independent Commission Against Corruption Act, and will ensure that this body becomes operational once legal challenges by the Ombudsman Commission have been resolved.

In support of our reform agenda and program, the Government of Papua New Guinea hereby requests a 6-month International Monetary Fund (IMF) Staff-Monitored Program (SMP) commencing on December 7, 2021. We consider the SMP to be essential in supporting our macroeconomic and stabilization efforts, building a track record of sound policy towards a future Fund-supported program, and an indispensable further step for building confidence with the international community, including the mobilization of critical support from our Development Partners. The enclosed Memorandum of Economic and Financial Policies (MEFP) and the Technical Memorandum of Understanding (TMU) provide comprehensive details of our reform agenda and program.

We believe that the policies set out in the attached MEFP are adequate and robust enough to make substantial progress towards our overall medium-term objectives and stand ready to take further measures that may become necessary to achieve our goals. The Papua New Guinea authorities will consult with IMF staff, at our own initiative or whenever the Managing Director of the IMF requests, on the adoption of these measures and in advance of any revisions to the policies contained in our MEFP, in accordance with the IMF's policies.

The Government of Papua New Guinea will provide IMF staff with such information as may be requested in connection with the progress made in implementing the economic and financial policies and in achieving the objectives of the program. To ensure that we can do this, and to indicate our commitment to this program, we have established a team within Treasury who will liaise on a regular basis with the IMF team and help keep engagement and collaboration in lieu of local IMF representation.

The Government of Papua New Guinea authorizes the IMF to publish this letter, the attached MEFP and TMU, and the related IMF staff report, including placement of these documents on the IMF website, subject to the removal of market-sensitive information.

Sincerely

/s/

/s/

.....  
James Marape  
Prime Minister

.....  
Ian Ling-Stuckey  
Minister for Treasury



## Attachment I. Memorandum of Economic and Financial Policies

*This Memorandum of Economic and Financial Policies (MEFP) reviews recent economic and financial developments, and describes policies that the Government of Papua New Guinea plans to implement over the course of a proposed 6-month Staff Monitored Program (SMP) to commence December 7, 2021 and expire by June 15, 2022.*

### A. Context and The 2020-21 Staff Monitored Program

**1. Papua New Guinea (PNG) is a low-middle income country, with significant resource wealth, but facing vulnerability to shocks.** Since 2014, we have become a significant exporter of liquefied natural gas (LNG) to the region, but this growth has been hit by a number of downturns, including lower commodity prices, a severe drought, a major earthquake, and most significantly, the COVID-19 pandemic, which severely reduced growth, caused an uptick in inflation, and severely impacted public finances and the balance of payments. This has emphasized the need for growth outside of the resource sector. We have identified several areas where structural reforms are needed to diversify the economy and increase resilience to shocks, including an urgent need to invest in agriculture and fisheries; improve domestic revenue mobilization to make space for needed spending on infrastructure and meeting pressing social needs; strengthen governance, transparency and accountability in the public sector; and address the imbalance of supply and demand in the foreign exchange (FX) market which is a keen concern of businesses. To this end, we requested Fund assistance in late 2019 for a program to support the Government's reforms in addressing these long-standing issues.

**2. The onset of the COVID-19 pandemic soon after program approval impacted economic activity and led to urgent financing needs.** The first SMP was established to correct the economic mismanagement and lack of transparency of earlier years. Necessary actions had been delayed for too long, and there was a need for increased transparency to build international support for PNG's new economic reform program of budget repair and reconstruction. The first SMP was approved in February 2020, just a month before the pandemic caused an unprecedented shutdown of the global economy. The first cases in PNG were detected soon after, and we responded with strict emergency measures including restrictions on national and international travel, and measures to prevent crowds and gatherings in the worst-hit regions. While necessary to address the pandemic, these measures impacted economic activity, leading to lower external inflows and weaker domestic revenue collection. We also redirected spending to address the pandemic, focusing resources on healthcare, agriculture, Water, Sanitation and Hygiene programs, SMEs and support for border and local security operations. Containment measures and periodic lockdowns meant restrictions in coming to offices, and reduced government activity for a period. Domestic expenditures were contained within the 2020 Budget limit, absorbing the additional COVID-19 expenditure costs, but there was a major reduction in government revenue. As a result, our fiscal deficit for 2020 rose to 9 percent of GDP, which was largely financed through emergency assistance from our development partners, including the disbursement of around US\$363.6 million under the IMF's Rapid Credit Facility (RCF) in June 2020.

**3. As a result, program implementation suffered but there was notable progress in key reform areas.** We were able to meet 4 of the 6 quantitative targets (QTs) for June 2020, missing only the target on the core fiscal deficit<sup>1</sup> and provision of FX to the market. The fiscal deficit exceeded the ceiling as a consequence of lower tax revenues and higher levels of capital spending supported by international project financing. In addition, the invalidation of the Public Money Management Regularization (PMMR) Act by the courts adversely impacted non-tax revenue collection, especially statutory transfers from the Commercial Statutory Agencies and lower dividends from the state-owned enterprises (SOEs) due to the pandemic and weakness in commodity prices. The lower FX provision reflected the need to maintain international reserves at a time of heightened uncertainty. Similarly, of the 17 structural benchmarks (SBs) agreed at program approval, we met 8 on time and another 5 with a delay.

**4. We believed that with an appropriate recalibration of targets, the aims of the SMP remained achievable, and reached understandings with IMF staff to bring the first program review to a conclusion in early 2021.** While a modification of some targets was seen as necessary in response to the unprecedented shock, the medium-term goals of the SMP remained largely achievable. Accordingly, we were able to agree to new QTs for December 2020 that recognized the need to recalibrate policy settings, and actions to address the 4 unmet SBs, including new prior actions, to demonstrate progress on key program goals. While these targets were not able to be formally approved as the review was not completed, we can report good progress in most areas. On QTs, we again met the majority of targets, missing only the same QTs on the fiscal deficit and provision of FX as the pandemic turned out to have an even more adverse impact on public finances and external flows than we had anticipated. We also met most of the new SBs and prior actions (PAs) agreed with IMF staff, including the preparation of an annual cashflow forecast for 2021, reflecting the budget we had agreed with the IMF team; development of an annual workplan on public sector cost controls; implementation of taxpayer services improvements for small businesses; issuance of operational guidelines to govern the use of the Government's overdraft facility with the central bank, the Temporary Advance Facility (TAF); and the preparation and release of the Terms of Reference for a review of the Central Banking Act. Unfortunately, due to the pressing demands of dealing with the pandemic, we could not provide confirmation of the successful completion of these measures until just before the SMP expired at end-June 2021, thus preventing the successful completion of the review. Nevertheless, we believe that the progress shown in the face of an unprecedented global crisis demonstrates our strong commitment to our reform program, which we are seeking to continue in the new SMP.

## B. Recent Economic Developments

**5. The COVID-19 pandemic adversely impacted economic growth, with a modest recovery now expected in 2021.** After contracting by an estimated 3.5 percent in 2020, real gross domestic product (GDP) is expected to recover, growing by 1.7 percent on the back of non-resource sector

<sup>1</sup> Please see the Technical Memorandum of Understanding accompanying the [staff report](#) for the 2019 Article IV Request for a Staff Monitored Program for the definition of the core fiscal deficit.

growth due to higher production in key agricultural export commodities (cocoa, coffee and palm oil). Activity in the resource sector has declined as a result of the closure of the Ok-Tedi copper mine, due to the pandemic, and delays in re-opening the Porgera gold mine and closure of Simberi mine. Year-end inflation is projected to be around 5.8 percent, underpinned by higher commodity prices, especially fuel and higher trading partner inflation, particularly from Australia.

**6. Lower commodity prices and volumes reduced the external current account surplus, weakening the overall balance of payments.** Reflecting a slowdown in global economic activity due to COVID-19, prices for major commodity exports (excluding gold) declined in 2020, reducing PNG's resource export revenues by around 8 percent of GDP while imports expenditure was affected by international border restrictions and weaker domestic demand. The 2020 year-end current account surplus is estimated at 21.8 percent of GDP, down from 22.4 percent of GDP in 2019. PNG's persistent and large current account surpluses have not resulted in reserves accumulation as they have been matched by capital and financial account deficits especially through loan repayments and dividends on resource projects. Higher commodity prices in 2021 compared to 2020, especially for PNG's main export goods, have compensated for the reduction in export volumes. Exports and imports are expected to grow by 5.0 and 7.1 percent, respectively, by end-2021.

**7. We maintained spending in key priority areas despite subdued activity as the business community adjusted to the new normal of living with COVID-19.** Up to end-June 2021, the Government expended a total of K8,196.9 million or 41.8 percent of its planned expenditure for the year. The expenditure was financed by a total revenue envelope of K5,506.4 million or 42.4 percent of the 2021 Budget revenue projection and a net borrowing of K3,069.5 million.

**8. We have made progress in balancing operating and capital expenditure in line with our expenditure rule.** Capital budget expenditure rose by 30.0 percent between 2019 and 2020; while operating budget growth was restrained at 6.0 percent allowing us to meet rising price costs. Despite the effects of the COVID-19 pandemic and a significant fall in revenue collection, the Government was also able to execute the national budget, with an original budget of K15,843.3 million (excluding grants, project loans and the GST and bookmakers transfers, automatically calculated transfers to the provinces) and an outcome of K15,821.8 million.

**9. Monetary developments reflect the slow recovery, while favorable FX inflows permitted a stable exchange rate and adequate reserves.** The Bank of PNG (BPNG) maintained an accommodative monetary stance throughout 2021 to support the economic recovery. The market interest rates for both lending and deposits declined. Broad money supply increased by 12.2 percent in the first half of the year, reflecting increases in the net domestic assets (NDA) with the purchase of Government securities mainly by commercial banks and financial institutions and in the net foreign assets (NFA) due to Government's external borrowings. The favorable inflows to the FX market to September 2021 were able to meet most of the import demand. BPNG's interventions also helped to clear some of the orders in the market, significantly reducing the clearing time of large import orders to less than three months, while small orders continue to be cleared on time.

**10. While non-performing loans (NPLs) unsurprisingly rose as economic activity was affected by the pandemic, the banking system remains well-capitalized and stable.** The capital adequacy ratio for the sector remains high at 38.4 percent in June 2021, and is mostly composed of Tier 1 capital. Nevertheless, the BPNG took steps to strengthen monitoring in light of the economic downturn, requiring banks to provide monthly reports on their financial condition, while stepping up supervision of liquidity, foreign exchange and market risks. The Financial Analysis and Supervision Unit (FASU), PNG's AML/CTF regulator, undertook regulatory actions against the largest commercial bank in July 2021, while ensuring no disruptions in existing correspondent banking relationships. These included the issuance of a formal warning, the requirement to remove certain executive management staff, and the engagement of an external auditor.

### C. Economic Outlook in 2022, and Risks

**11. Following the recovery in 2021, growth is expected to gain momentum in 2022.** The economy is expected to grow by 4.8 percent in real terms largely underpinned by the resource sector as mines affected by the pandemic return to normal operation coupled with the resumption of operations at the Porgera mines in second quarter and Simberi mine. Moreover, gradual easing of containment measures, higher government spending on capital, as well as some relaxation of travel restrictions in the second half of 2022 would support recovery in the non-resource sector. Year-end inflation is projection to be around 5.0 percent, driven by the rebound in domestic demand.

**12. We see significant upside potential from start-up of resource projects over the medium term.** While these are not incorporated into our baseline projections until final investment decision, resource projects include Papua LNG, P'nyang LNG and the Wafi Golpu mining project, have the potential to significantly increase growth even during their construction phases. Despite the pandemic, agriculture exports grew by 13 percent in 2020, driven by growth in Cocoa and Palm Oil, and we see this as an area of continued strong growth in the future. We expect many sectors to return to good growth rates over the medium term, with short run growth potential particularly in the areas most affected: accommodation, transport and the mining sector.

**13. Our baseline envisages a gradual recovery from the pandemic, though this will be conditional on the strength of the global economic recovery.** A re-intensification of the pandemic, either due to the emergence of local outbreaks or due to its impact on PNG's main trade and economic partners, or both would weaken growth prospects. The experience with a second wave of infections over the first quarter of 2021 underscores this risk. The government has started the vaccination process, and has administered 207,207 doses, with 2.3 percent of our population now fully vaccinated. Progress on this front has been slower than we had hoped, reflecting both the limited supply of vaccines in PNG and the need to ensure the public fully understands the safety and efficacy of vaccines, and the key role vaccinations will play in eventually ending this pandemic. In response to the current surge in COVID cases, the demand for vaccines has increased significantly and vaccination rates are expected to improve. PNG also faces climate-related shocks, including storms and droughts, and is vulnerable to frequent and sometimes major earthquakes.

## D. Economic and Financial Policies Going Forward

**14. Notwithstanding the impacts on economic activity and government operations from the COVID-19 pandemic, we remain strongly committed to a program of macroeconomic stabilization and structural reform, which began under the 2020-21 SMP.** We face the twin challenges of dealing with the pandemic and its aftermath, and the political calendar as we enter into a period of election campaigning in 2022, ahead of polls in the middle of the year. Nevertheless, we think there is scope to implement ambitious but achievable reforms and consolidate the gains from the recently-expired SMP. With that in mind, our proposed program, while short and focused, is intended to:

- **Continue the process of budget repair and investment**, including improving quality of capital investment, institutionalizing and strengthening of expenditure control, properly budgeting to cover all bills due and, over time, returning to a budget surplus;
- **Strengthen debt sustainability** so as to reduce the public debt-to-GDP ratio through a balanced strategy of containing and reducing spending on personnel emoluments; and strengthening domestic revenue mobilization;
- **Improve governance in the public sector**, with a focus on modernizing the BPNG's legal and accountability framework, strengthening oversight and control over SOEs, and building on our anti-corruption efforts in recent years. We also intend to build on our commitment to transparency in government procurement and spending as part of the RCF request; and
- **Strengthen actions to reduce foreign exchange shortages**, including formulating a plan to address the issues in the domestic foreign exchange market and improving liquidity management, supported by technical assistance.

## E. Fiscal Policy

### Fiscal Policies for the Remainder of 2021

**15. For 2021, higher revenues than the initial Budget are now expected.** The Mid-Year Economic and Financial Outlook (MYEFO) projects higher revenues than in the initial Budget, largely reflecting significantly higher foreign grants (K634.7 million higher) now expected; stronger performance in mining and petroleum taxes driven by higher commodity and fuel prices (K207 million higher); and strong performance in non-tax revenues (K286.2 million higher) reflecting higher dividends payments from SOEs, offsetting shortfalls in tax revenues due to the pandemic. While we believe the revenue forecasts are reasonable, there is risk attached to some of these projections, including in planned budget support grants and SOE dividends. In light of this, we have agreed with IMF staff on a fiscal framework that takes a more conservative position on revenues (Tables 2a and 2b of the IMF staff report) in the baseline.

**16. The higher revenues will allow us to increase spending on key priority areas without undermining fiscal prudence.** We intend to utilize the additional resources to cover higher grant-financed capital expenditure (K417 million), an overrun of salaries (K266.6 million) due to new recruits (teachers, and police and defense personnel and higher-than-expected spending for the State employer contribution to the Nambawan Super Limited superannuation scheme for its employees' retirement account), and a projected K216 million restoration of funding for the Government Tuition Fee Subsidy program. We also project that there will be savings on interest costs amounting to K170 million due to the G20 Debt Service Suspension Initiative (DSSI) and the success in attracting very concessional budget support, which will be supplemented by additional cuts of K178.5 million to other current spending items to cover the additional spending needs identified above. Even with the more conservative assumptions underpinning the program, we would still see a deficit of 7.4 percent of GDP, which represents a substantial consolidation from deficit recorded in 2020. If we are able to achieve the revenue forecasts in the MYEFO, the overall budget deficit will be identical to the initially-approved Budget.

**17. The 2021 Budget deficit will be largely externally financed, including through the utilization of the SDR allocation.** We have already secured K1,830.4 million in external financing, mainly from our development partners. Our plan is to maintain the net domestic financing envelope of K2,000 million approved in the 2021 Budget, assuming the ambitious revenue projections in the MYEFO materialize. Together, this will cover nearly 60 percent of the planned deficit. We intend to utilize the SDR allocation of SDR252.3 million that was approved in August 2021 to provide additional financing for the Budget. Discussions are underway with our development partners to secure the remainder and we are confident that these negotiations will be fruitful, allowing us to execute our Budget as planned. In the event there is a shortfall in revenues, we intend to enlarge the issuance of domestic securities to cover any remaining financing need.

**18. The Government and the BPNG are committed to transparently recording and presenting the utilization of the SDRs.** Discussions between the Treasury and BPNG are underway on how this will be done, supported by technical advice and consultation with IMF staff. While the overall domestic financing envelope has not changed relative to the approved Budget, we have adjusted the issuance calendar to incorporate a higher net issuance in the first half of the year, which is expected to be partially redeemed by year-end. Nevertheless, we are confident that we could increase the issuance of T-bills at the end of the year, should there be a shortfall in the anticipated level of external financing, thereby avoiding monetary financing and ensuring domestic payment arrears do not arise.

**19. While the focus of fiscal policies in 2021 remains dealing with the pandemic, there was progress on strengthening long-term fiscal sustainability.** On the revenue front, we are at an advanced stage of formulating a number of tax policy reforms, including preparation of Consequential Amendments to the Tax Administration Act (TAA), and we are soliciting views on potential revisions to the Income Tax Act (ITA) as well as a number of other measures that will improve domestic revenue collection over time. In the more immediate term, the IRC has started the process to introduce a new payment portal that will allow for simpler reconciliation and payment of

tax, which should strengthen compliance and improve revenue collection in the near term. To strengthen expenditure management, we completed a pilot payroll exercise in the first half of 2021 to improve data integrity and are working on expanding it to the rest of the Government. We anticipate that the data gathering phase of the exercise, covering all government departments, will be completed before the end of 2021 and will form the basis for the Staffing and Establishment Report and next steps on integrating personnel records and payrolls (see discussion on fiscal policies in 2022 below).

**20. We have made progress on other payroll reforms, including an effort to align payroll structures with the budget.** Using the Department of Treasury as a pilot, we have undertaken an effort to ensure that staff on the ALESCO payroll system are coded to the correct departmental units (cost centers), in which they are located and budgeted. This will allow the warrants for payroll for units to be realistic, and create more unit/activity level responsibility for operating within payroll constraints. Planning work is almost complete and once piloted, implemented and tested, it will be rolled out to all government departments and agencies, especially those on the ALESCO payroll system.

**21. We have undertaken efforts to improve governance over our debt through the passage of an updated guarantee policy.** Specifically, the amended State Guarantee Policy now incorporates provisions for: (i) monitoring government guarantees; (ii) loan guarantee payments and recovery; and (iii) recording and reporting of loan guarantees. More importantly, the updated policy strengthens our ability to appropriately monitor and accurately report on its loan guarantees as well as establish its rights to information on the loan guarantees. The revised State Guarantee Policy also enables the State to make provisions in any guarantee contracts to access loan guarantee information. The new Guarantee Policy was complemented by taking actions to address financial conditions in our SOEs, further lowering the fiscal risks. Specifically, we strengthened the fiscal position of our SOEs and reduced our arrears debt, by paying overdue bills to date to PNG Power Limited. This will improve the financial position of PNG Power, thereby reducing pressures on its balance sheet. More generally, we are implementing reforms to improve the commercial footing of SOEs to ensure their long-term viability, which will reduce the fiscal exposure by reducing contingent liabilities. This includes the agreement on a set of competitive neutrality policies, which are intended to ensure that SOEs are put on an even footing with non-government-controlled entities in their treatment related to taxation, regulation and debt. Ultimately, this is aimed at helping SOEs achieve a commercial rate of return.

## Fiscal Stance and Measures in 2022

**22. We intend to make gradual progress on our medium-term fiscal consolidation strategy in 2022 driven by improved revenue.** As the pandemic recedes and the economy recovers, we expect to see a rebound in tax revenues as well as a smaller need to maintain emergency spending. The PNG LNG project is expected to generate greater dividend and corporate income tax revenues towards the end of the medium term, as financing arrangements and possibly depreciation deductions come to the end. Accordingly, the NEC has approved a Budget that targets an overall fiscal deficit of K6,095.0 million (6.0 percent of GDP (QT), a more than 1-percentage point of GDP

decline from 2021) as a prior action (SB1). The Budget will be submitted to Parliament at the time of its next sitting in November for consideration and approval. A major factor in this consolidation is the reduction in the level of permitted concessional project loan drawdowns, an element that will need to be balanced with long-term growth objectives.

**23. The main element in our efforts to reduce the deficit will be to target a K1.5 billion increase in tax revenues (+0.6 percent of GDP), driven mainly by an increase in indirect tax receipts.** Indirect tax collection from international trade as well as a recovery in excises are expected to contribute to stronger overall tax collection, supported by efforts to improve collection of the goods and services tax (GST). Direct tax revenues are also expected to improve, reflecting the rebound in personal income tax as expatriates who left PNG during the pandemic gradually return and local employment strengthens on the back of the recovery momentum, as well as stronger company tax collection from the non-resource sector as activities pick up steam. While recognizing that the near-term improvement in revenue collection largely reflects the cyclical rebound in the economy, we intend to pursue structural revenue reforms to strengthen the long-term revenue capacity. Critical reforms in this regard will be:

- **Passage of the Consequential Amendments to the TAA.** The TAA, which passed in 2017, had a number of areas where it overlapped and was inconsistent with other legislation, including those governing the collection of income tax, GST, stamp duties, the gaming tax and the departure tax, and as a consequence, could not be fully implemented. These included ambiguity on the enforcement authority of the IRC and the PNG Customs, and rules on valuation and assessment. The proposed Amendments will eliminate these inconsistencies, thereby strengthening tax administration capacity. In addition, the Amendments will simplify tax compliance, which should improve revenue collection over time (SB3).
- **Revisions to the ITA.** The changes to the ITA aim to make it a simpler, more coherent, and more modern income tax legislation that is suited to PNG's environment. The revisions also aim to address ambiguities that have become apparent in the implementation of the current law, and present an opportunity to make high-level policy changes such as the introductions of a small businesses tax that will widen the tax base. The ITA will also be drafted so that it is accessible to all taxpayers – large and small, which will be particularly important in the context of self-assessment, which requires taxpayers to determine their tax liability. We are currently undertaking consultations on the revisions, which should be completed in 2022.
- **Improving tax administration.** The IRC will implement a Goods and Service Tax Monitoring System (GMS), modeled on the system in place in Fiji. Similarly, the IRC will procure and implement a new Integrated Tax Administration System (ITAS)—which intended to allow better taxpayer record keeping and assessment, and align with the new TAA—in 2022 for full implementation planned in 2023. PNG Customs intends to procure and install the Container Examination Facility in Lae (one of PNG's biggest sea ports) in 2022, which should streamline and improve the collection of duties and taxes on international trade while improving trade facilitation.



- **Introduction of levies on the banking and telecoms sectors to address super normal profits.** The Government is working to introduce a Bank levy on the financial sector as well as a sector-specific tax on telecommunication sector. The reforms recognize that concentration in these sectors have resulted in super-normal profits that are not adequately taxed under the existing provisions of tax laws. Work has progressed with the help of IMF experts who are assisting in the design of the tax. We expect to introduce these taxes as part of the 2022 Budget.

With these reforms, and continued work on ongoing initiatives, we expect to achieve a total tax revenue collection of K12.4 billion in 2022, and K10.7 billion in 2021. (indicative target, IT).

**24. The Medium-term Revenue Strategy (MTRS) has been important in guiding our reform efforts.** The MTRS, which has been developed with IMF technical assistance (TA), set out comprehensive and detailed plans to improve domestic revenue mobilization. The implementation, however, was hampered by capacity constraints as well as external shocks, including the pandemic. Nevertheless, there was notable progress toward the goals of the Strategy such as the above work on the TAA and the revision of the ITA. Looking forward, the MTRS will expire in 2022 and we see merit in maintaining a medium-term focus to guide future reform efforts. As a first step, we intend to conduct a review of the MTRS to take stock of achievements, challenges and lessons learnt, which will inform our subsequent plans. In this context, we request IMF TA to assist in the review of the MTRS implementation to-date.

**25. The Government will maintain its strong control of expenditure in 2022.** While higher revenue will be the bedrock of our fiscal consolidation efforts, we recognize that expenditure management will be a key part in our overall strategy. Accordingly, we intend to reduce overall expenditure by 0.2 percentage points of GDP, which translates into a nominal expenditure envelope that is around K1.5 billion larger than in 2021. A centerpiece of our expenditure management efforts will be continued efforts to contain the growth in compensation of employees. To this end, the verification of payrolls and identification of staff still in place past their mandatory retirement age, which was largely completed in 2021, will pave the way to progressively trim payrolls. There will be an upfront cost as the Government's contributions to retirement accounts are up-to-date. But the verification exercise should ensure new arrears do not emerge as we take a more systematic plan to transition the relevant staff to retirement. We estimate that there are approximately 18,000 staff currently on payroll who have reached the compulsory and normal retirement age, of which approximately 10 percent will transition into retirement by the end of 2021, with another 575 or so retirees expected to reach this milestone in 2022. Notwithstanding these demands, the overall envelope for personnel emoluments in 2022 is proposed to remain largely unchanged in nominal terms relative to 2021, yielding a reduction of 0.4 percentage point of GDP.

**26. To complement these efforts to strengthen payroll planning and management, we are embarking on improvements to the various systems used for this purpose.** Most critically, we have embarked on Staffing Establishment Survey (SB2). The Survey is intended to carry on from the verification exercise described above and will establish (i) staffing baselines in all government departments and line agencies, complete with matching of identified workers and positions they currently fill; (ii) set out a regular process for updating staffing roles, including timely recording of

staff movements to ensure the accuracy of staffing data; and (iii) propose quality assurance checks to ensure the data is reliable. The Survey will also map out a process to fully integrate the staffing and payroll database with the system for issuance of warrants and eventually the upgraded IFMS to ensure payroll expenditure is aligned with public expenditure management systems. The full integration will take time—procurement still needs to take place for the updated payroll system and IFMS—but once completed, there will be better control of expenditure, controls to prevent arrears from occurring, and ensure expenses are more easily auditable. We expect the link between institutional and financial approval for personnel spending—which should be completed within the next 12 months—will allow the Department of Personnel Management (DPM) to be able to set and enforce a cap on payroll growth, and over the longer term, once the integration with IFMS is completed, exercise more granular control of staffing.

**27. The agreed expenditure envelope, and reforms to address personnel costs, will allow us to continue supporting the key policy reforms introduced in 2020 and 2021.** We intend to continue focusing expenditure on Connect PNG, our road/electrification/communication construction initiative, supporting rural communities, supporting SMEs, and ensuring the GTFS program is adequately financed. We also intend to make room to ensure arrears accumulated in the past are cleared expeditiously, including taking steps to clear amounts owed to utility companies, which is an integral part of our SOE reform program. Accordingly:

- Expenditure for the ***use of goods and services*** will comprise mostly of operational funding and big ticket items such as the GTFS program, rentals and utilities, the procurement of medical supplies, spending associated with maintenance of critical capital projects, such road, health and education infrastructures and payment of arrears. In addition to these ongoing spending priorities, we will make an allocation of K850 million (of which K250 million is expected from international support) to finance expenses related to conducting to the 2022 general election under the operating budget, which will include voter registration, training of ballot workers, transportation of election materials and the provision of security to ensure a free and fair vote.
- Spending on the ***net acquisition of non-financial assets*** will comprise mostly of projects that are supported in significant part through donor grants and project loans from our development partners. The projects that will be supported under the Public Investment Program will mainly be to support road construction initiatives, and other key capital investments including in hospitals and schools.
- We intend to increase expenditure on ***social protection***, defined as current and capital spending on healthcare, education and law and order so as to ensure it remains at least constant in real terms in 2022 (IT).

**28. The fiscal deficit will be largely financed through external sources.** The Government has managed to bring down the costs of domestic borrowing, and over time as these reduce further with the expansion of the domestic financials market, further use will be made of domestic resources. We

will continue to avoid non-concessional borrowing, relying instead on concessional or near-concessional loans from our official bilateral and multilateral development partners (QT).

## **Structural Fiscal Reforms and the Medium-Term Fiscal Framework**

**29. We intend to strengthen transparency related to the awarding of government contracts and expenditures.** Reports on COVID-19 expenditure are being provided to BMC, including breakdowns between the sources of funding (including from international donors), the distribution by individual Provincial Health Authority (PHA) (including allocations, expenditures and outstanding funds) and expenditure by clinical cluster. The Government has made public details on COVID-19 expenditure under the K600 million response direct spending. These have been also provided by the NEC to Parliament. We intend to resume updating this information, including providing details on beneficial ownership of entities that were awarded contracts. As per our commitment under the RCF, we intend to complete a comprehensive audit report on past COVID-19 related spending, to be conducted by a reputable third-party auditor within a year of the end of the State of Emergency, if not sooner.

**30. We are committed to meeting the targets under our Medium-Term Fiscal Framework.** Our Medium-Term Fiscal Framework continues to be anchored on achieving and maintaining a sustainable level of Government debt over the longer term. We are committed to maintaining the expenditure rule set out in our revised FRA that limits current spending as a proportion of non-resource GDP and aims to bring the non-resource primary balance to zero in the medium term. This allows the Government fiscal room to chart out a suitable recovery from the macroeconomic shock caused by COVID-19, and invest in needed capital, in anticipation of further fiscal consolidation over the medium term.

**31. We have worked with our development partners on new modalities of support to increase transparency and reduce delays in disbursements.** The improvements have strengthened trust in government systems, supported by successfully establishing a monitoring and reporting group within Treasury and other agencies so that our donors can be assured that their financial support is being deployed appropriately and with all necessary control and oversight. As a result, the Government of Australia has already provided AUD52 million in 2021 so far, to support the GTFS and the Church Health Services programs and we expect the improvements to catalyze additional support going forward.

## **F. Monetary and Exchange Rate Policies**

### **Exchange Rate Policy Reforms**

**32. We intend to continue the provision of FX to market participants in the coming months of at least US\$180 million every quarter.** This is subject to maintaining PNG's international reserves above a minimum of US\$2.0 billion. The aim is to continue to support the market to gradually further reduce the amount of time it takes for FX orders to be cleared. Generally, our goal is to fulfill all FX orders within 3 months in line with the invoicing period.

**33. Improving the functioning of the foreign exchange market will involve enhancing the interbank market operations and price setting mechanism.** We are preparing for a gradual return to kina convertibility, including formulating a plan address to exchange restrictions, and improving liquidity management. We recognize there are structural issues in the economy, impacting on the effective functioning of the FX market. We have requested technical assistance from the IMF to implement measures to re-establish the inter-bank market to improve FX management and operations. In the medium term, exchange rate adjustment will need to be complemented with other important structural reforms to boost incentives for investment in the non-resource sector and raise incomes of households and businesses in the agricultural sector while looking at options to increase the FX retention from extractive industry revenues.

### **Reforms to the Monetary Management Framework**

**34. Reform to the TAF, through the amendments to the Central Banking Act, has increased the limit and term of advances provided by BPNG to better manage cash flow mismatches.**

This has allowed us to manage cash flows during the year to provide greater support to expenditure from early in the fiscal year. The TAF is not intended to function as a permanent source of financing for the Government, as this would not only adversely impact the Central Bank's monetary policy operations and its balance sheet but breach the Central Banking Act. Rather, it is a within-year cash flow tool, with repayments of advances to be completed by the end of the fiscal year. A set of operational guidelines for the TAF was finalized earlier this year by BPNG and the departments of Treasury and Finance to safeguard the monetary autonomy of the BPNG. The ongoing review of the Central Banking Act is an opportunity to revisit this issue in more depth (see discussion in Section III below).

**35. At the same time, steps will be taken to strengthen liquidity management and the effectiveness of BPNG money market operations.** BPNG will need to have effective tools to manage systemic liquidity and interest rates. Improving the monetary management framework will also support financial development – critical for the development of the non-resource sector – and strengthen the BPNG's ability to manage inflation. Specific measures to be taken include:

- **Strengthening cash management and liquidity forecasting frameworks.** The Department of Treasury and BPNG will continue to cooperate to improve government revenue and expenditure forecasts. As essential inputs to strengthen both government cash management and BPNG liquidity forecasts, we will formally establish objectives of the PDC, define members' responsibilities, produce an annual debt issuance strategy, produce and share one-week-ahead and one-month-ahead cash-flow projections, and issue a timetable of committee meetings (SB4).
- **No direct monetary financing of the Budget.** We intend to continue with zero monetary financing of the Budget. Operational Guideline for the TAF was signed by BPNG and circulated to the Departments of Treasury and Finance.

## G. Review of the Central Banking Act

**36. The ongoing review of the Central Banking Act is an opportunity to strengthen the central bank's governance, autonomy and accountability framework.** To conduct this review, the Government has appointed an Independent Advisory Group (IAG), comprising of eminent persons outside the public sector, to undertake the review. This review looks at ways to modernize the Central Bank Act, and is being carried out in two phases. Phase one looks at the governance and role in monetary policy. Phase two will look at the Central Bank's regulatory role. The advisory group report was provided to the Minister on November 11.

**37. BPNG also underwent a safeguards assessment conducted by the IMF as required for the use of Fund resources when we received COVID-19 assistance under the Rapid Credit Facility.** We commit to working with the IMF on the findings of the safeguards assessment. A summary of the assessment's recommended amendments to the BPNG's legal framework have been provided by BPNG to the IAG.

**38. Upon completion of the review, we intend to submit draft amendments to the Central Banking Act to Parliament (SB5).** The amendments will be drafted in consultation with IMF experts and submitted to the Budget Session of Parliament before end-March 2022.

## H. Strengthening Financial Sector Stability and the AML/CTF Framework

**39. BPNG will continue to strengthen its risk-based banking supervision framework.** Pandemic-related stresses on corporate, SME, and household balance sheets pose credit risks to banks. To-date, the financial system has managed well, and NPLs have risen only modestly. Nonetheless, stresses are likely to build until the economy is well on the road to recovery. Moreover, banks will need to upgrade their management of FX and interest rate risks as we implement FX and monetary reforms, as well as improve their monitoring of balance sheet vulnerabilities of corporate clients, including SOEs. BPNG has intensified its liquidity, foreign exchange, and market risk supervision, utilizing ongoing TA provided by PFTAC, and besides the quarterly reporting, has introduced additional monthly reports. BPNG will also strengthen its stress-testing capacity, including by making use of information on SOE balance sheets provided by the Kumul Consolidated Holdings Ltd (KCHL).

**40. PNG will continue to strengthen effective implementation of its AML/CTF framework within the context of PNG's development needs, the desirability of reducing red tape, and given limited implementation capacities.** We have made substantial progress in strengthening our AML/CTF framework, and taken steps to address any irregularities observed in the banking system, while being extremely vigilant of potential pressure on correspondent banking relationships. The BPNG/FASU will continue enhancing its risk-based supervision of banks to improve AML/CTF compliance in the context of supporting PNG's development while our law enforcement agencies will step up their efforts in investigating, prosecuting and sanctioning ML cases, as well as confiscating proceeds of financial crime.

## I. Public Sector Reforms, Structural Policies and Governance

**41. To continue our improvements to transparency and disclosure of financial information by SOEs, we already reduced the backlog of publication of audited financial statements for these companies, as planned by November 2021.** As noted earlier, we are working to improve the financial viability of our SOEs, centered on a program of clearing the Government's arrears to these companies and in putting them on a stronger commercial footing to strengthen their long-term viability. In this context, many SOEs have not published their audited financial statements in many years, some going back to 2018 or earlier. We recognize that the lack of transparency in this sector hampers effective oversight of public enterprises, and exposes the Government to fiscal risks, especially when they borrow with government guarantees. To this end, have made progress in reducing the backlog in 9 key SOEs, namely Air Niugini, Kumul Agriculture, entities under Kumul Telikom Holdings, Motor Vehicle Insurance, National Development Bank, PNG Power, PNG Ports Corporation, Post PNG, and Water PNG. By end-October, ahead of our initial plan, we were able to produce:

- Audited financial statements for 2018 for 9 SOEs listed;
- Audited financial statements for 2019 for at least 6 of the SOEs listed; and
- Audited financial statements for 2020 for at least 4 of the SOEs listed.

**42. The passage of the OLICAC (ICAC Act) and Whistleblowers' Act represent important advances in strengthening our anti-corruption framework.** The passage of these Acts in 2020 marked the culmination of years of work, and a milestone in oversight. We intend to further strengthen the anti-corruption framework, and complete the adoption of implementing regulations for these Acts. The regulations will cover guidelines and standard operating procedures to ensure the Commission's independence, in line with international standards and best practices, as well as terms and conditions of the staff of the Commission to ensure they are properly compensated and proper governance safeguards are in place. Similar regulations are also being worked on for the Whistleblower's Act to operationalize it. To support these efforts, we may request IMF TA to review the draft regulations and support our efforts to staff the ICAC. In addition to these efforts, the National Procurement Act has been operationalized, with the establishment National Procurement Commission (NPC) as an entity since April 1, 2019. The government has received support from several donor partners, especially ADB, EU and the Australian Government in implementing the NPA.

## J. Program Monitoring

**43. Program implementation will be evaluated by the Managing Director of the IMF, based on quantitative targets, indicative targets and structural benchmarks (Tables 1 and 2).** The sole program review will be based on the outcome of QTs as at end-December 2021 as well the SBs described in Table 2. Program targets and benchmarks are more fully defined in the Technical

Memorandum of Understanding (TMU) accompanying this MEFP. The program review is expected to take place in April 2022.

**44. To facilitate the monitoring of program implementation, we have set up a Program Monitoring Committee.** The Committee is composed of senior officials from the Treasury and the BPNG, and has been tasked with monitoring program performance, maintaining close and frequent contact with Fund staff, and transmitting the data and supporting materials necessary for the evaluation of quantitative targets and structural benchmarks. As a step to ensure close and frequent contacts are maintained, we are committed to conducting fortnightly meetings with the IMF PNG staff team to appraise them of developments and provide updates on progress toward SBs. We are also committed to regular sharing of information on program performance, in line with the schedule set out in the TMU.

**45. We commit to strengthen data reporting to the IMF, as set out in the data release schedule included in the TMU.** This SMP is an opportunity to strengthen institutional cooperation to improve the quality and timeliness of data collection and reporting. Higher quality and more timely data are critical to support policymaking and monitoring, and are integral to strengthening our cooperation with the IMF. To this end, the Program Monitoring Committee will proactively follow up on data needed for program monitoring. In addition to the quantitative data to be reported on a regular basis, we also commit to provide additional information needed to assess the status of proposed structural benchmarks and will make our best efforts to provide other data as needed to facilitate program monitoring.

**Table 1. Papua New Guinea: Quantitative Targets and Indicative Targets for 2021 – 2022 <sup>1/</sup>**  
(In billions of kina, unless otherwise indicated)

	2021	2022	
	End-December Test Date Proposed	End-March Indicative Targets Proposed	End-June Projection
<b>Quantitative Targets</b>			
Fiscal deficit of the central government (cumulative, ceiling within the year)	6.863	2.563	3.824
New non-concessional external debt contracted or guaranteed by the central government or the BPNG with maturity of one year or more (cumulative ceiling over the duration of the program, US\$ millions)	0	0	0
External debt service arrears of the central government (ceiling, US\$ millions)	0	0	0
Stock of net international reserves of the BPNG (floor, US\$ millions)	2,000	2,000	2,000
BPNG provision of foreign exchange to authorized FX dealers (floor, cumulative within the year, US\$ millions)	660	180	360
BPNG direct monetary financing of the public sector (ceiling, cumulative within the year)	0	0	0
<b>Indicative targets</b>			
Tax revenue of the central government (floor, cumulative within the year)	10.868	2.613	5.376
New domestic payments arrears of the central government (ceiling)	0	0	0
Social and other priority spending (cumulative floor within the year) <sup>2</sup>	3.160	1.262	2.665
Present value of public and publicly-guaranteed external debt (ceiling, US\$ millions) <sup>3</sup>	6,500	6,750	6,750
<b>Memorandum items:</b>			
Concessional borrowing (cumulative, millions of US\$)	627.9	150	300
Stock of arrears to be cleared (cumulative for the year)	1.200	0.500	0.700

Sources: Papua New Guinea authorities; and Fund staff estimates.

<sup>1</sup> For definitions and adjustors see the Memorandum of Economic and Financial Policies and the Technical Memorandum of Understanding.

<sup>2</sup> Comprises central government spending on health, education and law and order (both capital and operating expenses).

<sup>3</sup> The ceiling is to apply for the entire year.



**Table 2. Proposed Structural Measures, November 2021–March 2022**

No.	Proposed Measure	Due by
1.	Approval of a framework for the 2022 budget, in line with understandings reached with the IMF mission, by NEC	Prior Action Completed October 13, 2021
2.	□ Complete and share with Fund staff the Staffing and Establishment Review report, a comprehensive review of staffing in the government, including a plan for maintaining the integrity of the staffing data and a proposal to institute a quality assurance process to govern the payment of salaries.	End-February 2022
3.	Approval of the Consequential Amendments to the Tax Administration Act, 2017 by the NEC and submission to Parliament for approval. The Amendments to the Act should clarify the enforcement powers of the revenue authorities (the Internal Revenue Commission and the Customs Department) and address any inconsistencies with legislation governing the collection of other taxes and revenues, including income taxes, the goods and services tax, stamp duties, the gaming tax and the departure tax.	End-March 2022
4.	Strengthen the public debt committee comprising of BPNG and Treasury staff by establishing and sharing with Fund staff a set of objectives and aligning TORs defining members' responsibilities, producing a draft annual debt issuance strategy to support forward planning and discussing as part of meetings.	End-March 2022
5.	Submit for parliamentary approval amendments to the Central Banking Act to strengthen the independence, governance, accountability, and transparency of the Central Bank, in consultation with Fund staff.	End-March 2022

## Attachment II. Technical Memorandum of Understanding

*This technical memorandum of understanding (TMU) sets out the understanding between the Papua New Guinea authorities and the International Monetary Fund (IMF) regarding the definitions of the indicative targets for the 6-month Staff-Monitored Program (SMP) spanning from December 7, 2021 to June 15, 2022, and should be read in conjunction with the Memorandum of Economic and Financial Policies (MEFP) that accompanies this TMU. It specifies the assessment criteria and indicative targets on which the implementation of the SMP will be monitored in the period following completion of the sole First Review in April 2022 and until program expiration in June 2022. In addition, the TMU reaffirms the terms and timeframe for transmitting the data that will enable IMF staff to assess program implementation and performance.*

### A. Assessment Criteria: Quantitative Targets

**1. Assessment Criteria have been set for the end of December 2021 and performance under the program is assessed against those quantitative targets, unless otherwise specified.**

The assessment criteria are specified in Table 1 of the MEFP.

**2. For the purposes of the SMP, the government is defined as the central government.**

Central government is defined as the component of general government covered by the national budget and encompasses fundamental activities of the national executive, legislative and judiciary powers. It includes Extra Budgetary Units which have individual budgets not fully covered by the national budget.

#### Definitions and Calculations

**For the calculation, monitoring and evaluation of the assessment criteria, the following definitions will be used:**

**3. The cumulative fiscal deficit is calculated on a cash basis, and will be calculated as the net incurrence of financial liabilities less net acquisition of financial assets** by the central government from the start of the fiscal year on January 1. The definitions and data to assess the fiscal deficit will be the same as set out in Table E (“Transactions in Assets and Liabilities”) in the 2020 Final Budget Outcome published by the Government of PNG.

**4. Net acquisition of financial assets** will be calculated as the net change in domestic financial assets plus the net change in external financial assets of the central government.

**5. Net incurrence of liabilities** is defined as the sum of the net incurrence of domestic liabilities and net incurrence of external liabilities of the central government.

- **Domestic liabilities** will include debt securities outstanding; loans received from residents of PNG; insurance, pension and standardized guarantee schemes; financial derivatives and employee stock options; and other accounts payable.

- **External liabilities** will include debt securities outstanding; and loans received from lenders not resident of PNG; and any other liabilities that meet the definition of external debt as set out in paragraph 7 below.

To encourage monitoring of arrears clearance, the fiscal deficit excluding payments for the clearance of arrears incurred in past fiscal years may be reported as a memorandum item.

**6. Debt** is defined for the program purposes in accordance with paragraph 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements, adopted by Decision No. 16919-(20/103) of the Executive Board of the IMF on October 28, 2020. The term “debt” will be understood to mean all current, i.e. not contingent liabilities, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take various forms; the primary ones being as follows:

- loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);
- suppliers’ credits, i.e., contracts where the supplier permits the obligor to defer payments after the date on which the goods are delivered or services are provided; and
- leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of these guidelines, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

Under the definition of debt set out in this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on a contractual obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

For the purposes of this SMP, debt shall include borrowing by, or that receives guarantees from, the central government and the Bank of Papua New Guinea (BPNG) as set out in paragraph 10. Accumulation of liabilities for the purposes of conducting monetary policy by the BPNG, including the issuance of securities or other marketable instruments such as central bank bills or notes, shall be excluded from the definition of debt.

**7. External public debt** is defined as a debt denominated, or requiring payment, in a currency other than the Kina. For program purposes, a debt and/or guarantee is considered contracted when all conditions for its coming into effect have been met, including approval by the Treasury. The contracting of credit lines with no predetermined disbursements schedules or with multiple disbursements will be also considered as contracting of debt.

**8. The present value of any external borrowing by the government** is defined as the annual discounted future debt service payments for that loan, using a discount rate of 5 percent.

**9. External concessional borrowing by the government** is defined as external borrowing where the difference between the face value of the loan and the present value of the loan as defined in paragraph 8 is not less than 35 percent when expressed as a percentage of the face value. A continuous zero ceiling will apply on the contracting or guaranteeing of external non-concessional debt by the Government or the BPNG. For the purposes of the SMP, official bilateral and multilateral borrowing is excluded from the external non-concessional borrowing ceiling to assess program performance.

**10. Government debt guarantee** means an explicit legal obligation of the central government or the BPNG to service a debt in the event of nonpayment by the borrower.

**11. External debt service arrears** are defined as external debt obligations of the government that have not been paid when due in accordance with the relevant contractual terms (taking into account any contractual grace periods). A continuous ceiling on the non-accumulation of external debt service arrears shall apply during the program period.

**12. Net international reserves** (stock) are defined as the difference between the BPNG's gross foreign assets and gross foreign liabilities, in line with the definition in Section 78 of the PNG Central Banking Act (2000).

**13. Gross foreign reserves are defined as the sum of:**

- The BPNG's holdings of monetary gold (excluding amounts pledged as collateral);
- Holding of Special Drawing Rights (SDRs);
- BPNG holdings of convertible currencies in cash or in nonresident financial institutions (deposits, securities, or other financial instruments);
- Papua New Guinea's reserve tranche position with the IMF.

**14. Gross foreign reserves exclude:**

- Any foreign currency claims on residents;
- Capital subscriptions in international institutions;

- Assets obtained through currency swaps of less than three months duration;
- Pledged, swapped, or any encumbered reserve assets, including but not limited to reserve assets used as collateral or guarantees for third-party external liabilities;
- Precious metals other than gold, assets in nonconvertible currencies and illiquid foreign assets.

**15. Gross foreign reserve liabilities are defined as:**

- The total outstanding liabilities of the BPNG to the IMF, excluding the SDR allocations;
- Convertible currency liabilities of the BPNG to nonresidents with an original maturity of up to and including one year;
- Commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options).

**16. BPNG provision of foreign exchange to authorized foreign exchange dealers** is defined as the amount of FX sold by BPNG to banks and other authorized FX dealers in PNG, as defined by the BPNG under FX administration regulations, each month, with the intention to assist meeting the FX orders in the market.

**17. Direct monetary financing of the central government** refers to BPNG providing direct financing to the central government that spans more than a single fiscal year. Limited, temporary financing for cash management purposes shall be permitted via the Temporary Advance Facility (TAF), and excluded from calculation of direct monetary financing, if it complies with the Operational Guidelines (Terms & Conditions) governing the use of the TAF between Treasury, Finance and BPNG. The acquisition of government securities by the BPNG as part of its monetary policy and management operations is excluded from the definition of monetary financing.

## B. Assessment Criteria: Indicative Targets

**18. Indicative targets have been set for end of December 2021 and March 2022.** Indicative targets serve to assess progress under the program but are not binding quantitative criteria under which performance under the program is evaluated. The targets are specified in Table 1 of the MEFP. For the calculation, monitoring and evaluation of the indicative targets, the following definitions will be used:

### Definitions and Calculations

**19. Tax revenues** of the government are defined in line with the GFSM 2014 and are classified into the following categories: (i) taxes on income, profits, and capital gains; (ii) taxes on payroll and workforce; (iii) taxes on property; (iv) taxes on goods and services; (v) taxes on international trade and transactions; and (vi) other domestic revenue, including non-tax revenue.

**20. Domestic payment arrears** are overdue domestic payment obligations of the central government, owed to entities legally incorporated in Papua New Guinea and residents of Papua New Guinea. They include obligations to domestic service providers but exclude government liabilities to other public sector units. Except in case where the terms and conditions of the transaction stipulate a longer period, payments are deemed to be in arrears when:

- Debt remains unpaid for more than 30 days after the due date stipulated in the agreement between the parties (creditor/debtor).
- Wages or pensions remain unpaid 90 days after their due date.
- Payments for goods and services rendered received more than 90 days after processing of the supporting documents submitted by suppliers.

The indicative target on the non-accumulation of new domestic arrears shall only be assessed against any arrears that are first accumulated in 2021, and not on arrears accumulated in 2020 or earlier.

**21. Social and other policy priority spending** is measured on a cash basis and comprises central government spending in the following areas: health, education and law and order (both capital and operating expenses).

### C. Program Monitoring and Data Reporting

**22. To facilitate the monitoring of program implementation, the Papua New Guinea authorities shall maintain a Program Monitoring Committee.** The committee will be composed of senior officials from the Treasury and the Bank of Papua New Guinea, and shall be responsible for monitoring the performance of the program, informing the Fund regularly, and transmitting the supporting materials necessary for the evaluation of benchmarks.

**23. The Committee will prepare and provide to the Fund staff electronically the following information contained in the data reporting table below.**

**Table 1. Papua New Guinea: Data Reporting for Program Monitoring**

<b>Data Description</b>	<b>Type of Data</b>	<b>Reporting Agency</b>	<b>Reporting Frequency</b>	<b>Reporting Lag</b>
<b>Fiscal Sector</b>				
Net acquisition of financial assets and net incurrence of financial liabilities	Budget operations	Treasury	Quarterly	1 month
Payments incurred by the central government on education, health, and law and order (both capital and current spending)	Budget operations	Treasury	Quarterly	6 weeks
Total domestic revenues received by the central government	Revenue	Treasury	Monthly	1 month
The monthly cash plan			Monthly	1 month
Total stock of domestic arrears, with a breakdown between service providers	Domestic arrears	Treasury	Monthly	1 month
Stock of domestic debt, disbursements, amortization, interest, and other fees and charges; face value, maturity, interest rate, and payment schedule	Domestic debt	Treasury	Monthly	1 month
Total volume of sovereign bond issued, with interest rate, maturity, and recipient			Monthly	1 month
The amount of new domestic debt contracted by Government			Monthly	1 month
Details of disbursed external budget support and project grants and loans	External debt	Treasury	Monthly	1 month
End of year external debt in U.S. dollars, by creditor, and originating currency.			Monthly	1 month
The amount of new external debt contracted by Government			Monthly	1 month
All guarantees provided by the government including guarantees to public corporations and private sector			Monthly	1 month
<b>Real Sector</b>				
Consumer Price Index	Economic indicators	NSO	Quarterly	3 months

**Table 1. Papua New Guinea: Data Reporting for Program Monitoring (continued)**

<b>Data Description</b>	<b>Type of Data</b>	<b>Reporting Agency</b>	<b>Reporting Frequency</b>	<b>Reporting Lag</b>
National Accounts (breakdown of production) in real and nominal terms			Annual	24 months (latest GDP figures are for 2018)
Agricultural production data (volume/value of major products)		BPNG /Treasury	Quarterly	3 months
Mineral production data (volume/value of major products)		BPNG/ Treasury	Quarterly	3 months
<b>Structural Benchmarks</b>				
A table with a description of the status of implementation of the structural measures in Table 2 of the MEFP.	Structural benchmarks	Treasury	Quarterly	3 months
<b>Monetary and Financial Sector</b>				
Detailed balance sheet data of the BPNG submitted in the reporting template	Monetary Survey	BPNG	Monthly	1 month
Cash flows of the Waigani Public Account, including any use of TAF and TAF repayment			Monthly	1 month
Sale of FX by the BPNG to authorized FX dealers			Monthly	1 month
Depository Corporations Survey			Quarterly	3 months
Balance sheets and income statements by financial institutions (aggregate and by bank)			Quarterly	3 months
Financial Soundness Indicators (aggregate and by bank)			Quarterly	1 month
Lending activity of banks (by sector)			Monthly	1 month
<b>External Sector</b>				
Balance of Payments data in the reporting template provided by IMF staff	BOP	BPNG	Quarterly	3 months
Import and export data, by sectors			Quarterly	3 months
Net international reserves, including reserve assets/liabilities by original currency			Monthly	1 month
Foreign exchange flow data (by type of flow)			Monthly	1 month



<b>Table 1. Papua New Guinea: Data Reporting for Program Monitoring (concluded)</b>				
<b>Data Description</b>	<b>Type of Data</b>	<b>Reporting Agency</b>	<b>Reporting Frequency</b>	<b>Reporting Lag</b>
Banks' purchases and sales of foreign currency (specified by bank and by type of flow)			Monthly	1 month
List of the foreign exchange allocation pipeline (orderbook) with information about length of time needed to fulfill order			Monthly	1 month



# PAPUA NEW GUINEA

## REQUEST FOR A STAFF-MONITORED PROGRAM—DEBT SUSTAINABILITY ANALYSIS

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Papua New Guinea: Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	High
Overall risk of debt distress	High
Granularity in the risk rating	Sustainable
Application of judgement	No

*Papua New Guinea (PNG) remains at high risk of debt distress under the Low-Income Country Debt Sustainability Framework (LIC DSF), with weak debt-carrying capacity. While the planned fiscal consolidation helps address debt vulnerabilities exacerbated by the global COVID-19 shock, the risk of both external and public debt distress continues to be assessed as high. Over the medium-term, public debt enters a downward trend and the projected temporary breaches of sustainability indicators can mostly be addressed by debt management operations as well as improvements in revenue generation, a key pillar of the new Staff-Monitored Program (SMP). The Debt Sustainability Analysis (DSA) suggests that PNG is susceptible to exports and exchange rate shocks, signaling serious downside risks to the debt outlook in a global environment of high uncertainty. To lower the risk of debt distress and ensure debt sustainability, gradual fiscal consolidation, including boosting revenues, and steadfast structural reforms to promote private sector growth would be needed. Conditional on the implementation of policy measures included in the SMP, PNG's external and overall debt is judged as sustainable.*

<sup>1</sup> The Composite Indicator (CI) of 2.63 is based on the latest available CI information—October 2021 IMF World Economic Outlook (WEO) and the World Bank's Country Policy and Institutional Assessment (CPIA), indicating a "weak" capacity to carry debt.

<sup>2</sup> This Debt Sustainability Analysis has been prepared jointly by the International Monetary Fund and the World Bank, in accordance with the revised Debt Sustainability Framework for low-income countries approved by the Executive Boards of the IMF and the IDA.

## PUBLIC SECTOR DEBT COVERAGE

**1. The coverage of public debt in the DSA is unchanged from the previous (June 2020) DSA (Text Table 1).** The segments the public sector captured in the DSA include the central government, state and local government, and to some extent guarantees to other entities in the public and private sector, including parts of state-owned enterprises (SOEs). However, debt numbers do not fully capture implicit government guaranteed debts of SOEs and unfunded superannuation liabilities relating to pensions.<sup>3</sup> For the purpose of this DSA, the coverage of public sector debt remains unchanged from the last DSA, which was prepared in June 2020 in the context of a request to access the IMF's *Rapid Credit Facility* (RCF). Given continued difficulties in capturing and assessing SOE risks, a contingent liabilities stress test is included in this DSA, assuming 9 percent of GDP as SOE debt is not captured in official public debt data, and 3 percent of GDP for other elements of general government (mainly unfunded superannuation liabilities related to pensions). Separately, according to the World Bank's PPP database, the PPP capital stock in PNG is zero and, therefore, no default shock is triggered. A financial market shock of 5 percent is added, reflecting the average fiscal cost of financial crisis in low-income countries. With these assumptions, the cumulative shock in the contingent liabilities stress test amounts to 17 percent of GDP—compared to 7 percent under default assumptions.

**Text Table 1. Papua New Guinea: Coverage of Public Debt**

Subsectors of the public sector	Sub-sectors covered
1 Central government	X
2 State and local government	X
3 Other elements in the general government	
4 o/w: Social security fund	
5 o/w: Extra budgetary funds (EBFs)	
6 Guarantees (to other entities in the public and private sector, including to SOEs)	X
7 Central bank (borrowed on behalf of the government)	
8 Non-guaranteed SOE debt	

1 The country's coverage of public debt	The central government plus social security, central bank, government-guaranteed debt		
	Default	Used for the analysis	Reasons for deviations from the default settings
2 Other elements of the general government not captured in 1.	0 percent of GDP	3.0	Unfunded superannuation liabilities, relating to pensions. SOE sovereign guarantee in dispute.
3 SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	9.0	
4 PPP	35 percent of PPP stock	0.0	
5 Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5.0	
<b>Total (2+3+4+5) (in percent of GDP)</b>		<b>17.0</b>	

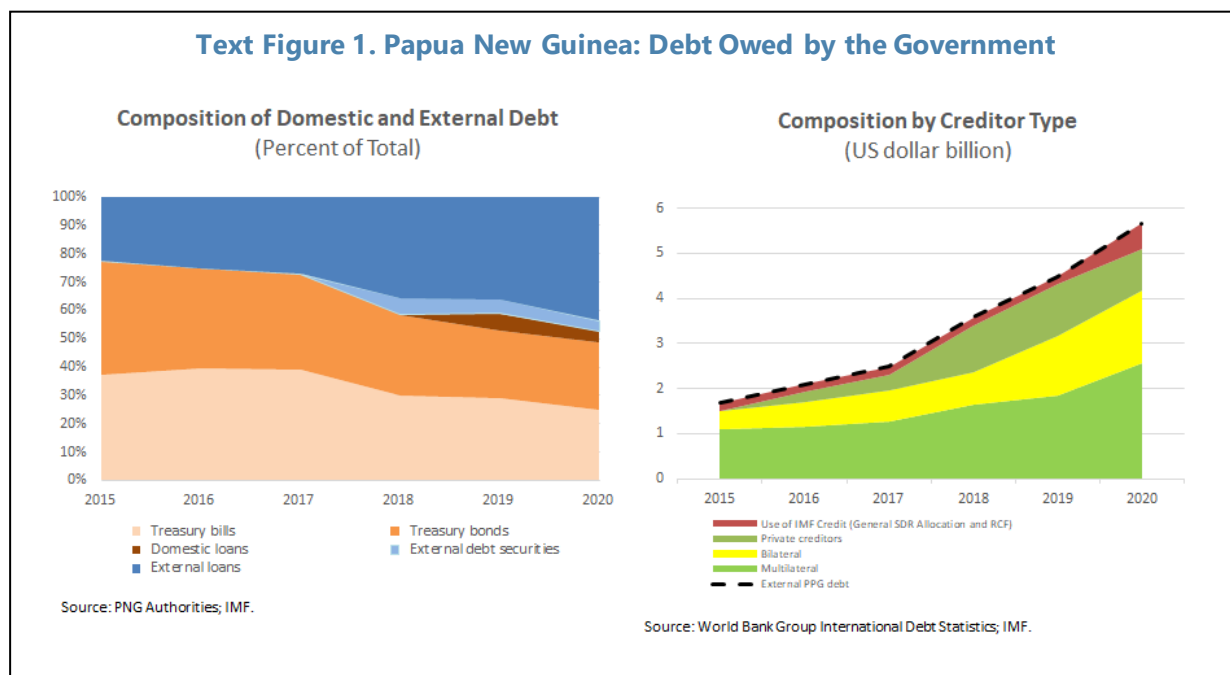
1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

<sup>3</sup> In the context of the previous SMP, which expired in end-June 2021, the authorities initiated an SOE reform program to reduce the backlog of audited annual financial statements and to strengthen SOE oversight and improve understanding of fiscal risks. This program includes a detailed review of SOE debt and government guarantees and is also expected to improve the reporting of public debt.

## BACKGROUND ON DEBT

### 2. During 2017-2020, public debt build-up was mainly due to external loans and the creditors composition has been shifting from commercial loans to official multilateral and bilateral financing.

Domestic financing through T-bills and T-bonds has been stable over time. *Text Figure 1* shows the evolution of domestic and external debt, broken down into instruments (left chart), and the composition of debt by creditor group (right chart) with categories official multilateral, official bilateral Paris Club, official bilateral Non-Paris Club, commercial lenders, and use of IMF credit. Shocks from the pandemic, including terms-of-trade shocks to main exports (mainly LNG and metals), have reduced the 2020 current account surplus and exacerbated fiscal deficits, resulting in a gross nominal public debt path that is higher than at the time of the 2019 Article IV consultation and the 2020 request for access to the RCF. However, expensive commercial loans have been replaced with official multilateral and bilateral financing at more favorable conditions which helps improve external debt burden indicators. Public and publicly guaranteed (PPG) external debt figures used for this DSA are consistent with the information in the WBG International Debt Statistics.



**3. The IMF's general allocation of Special Drawing Rights (SDRs) became effective in August 2021, with SDR 252 million (US\$357 million, or 95.7 percent of quota) allocated to PNG.** The authorities have decided to use the SDR allocation in its entirety to support the 2021 budget. The SDR allocation is included in public debt numbers for the purpose of this DSA (international reserves with the central bank increase only temporary for a few months until the SDRs are converted into hard currency and used by the treasury for budget support), and the associated debt service of 0.05 percent of the amount outstanding is reflected as well.

**4. PNG is an IDA blend country, with total IDA19 allocation is SDR 178.4 million.** IDA's Performance-Based Allocation (PBA) for PNG benefitted from resource frontloading amid a shortening of IDA19 to two years as well as an intra-regional reallocation for SDR 0.6 million, approved in November 2021. The IDA decision to graduate a country to IBRD-only status is based on an assessment of the country's macroeconomic prospects, risk of debt distress, vulnerability to shocks, institutional constraints, and levels of poverty and social indicators. Ongoing efforts under the Sustainable Development Finance Policy (SDFP) can help improve PNG's creditworthiness and allow future access to full IBRD borrowing. As part of the SDFP, PNG has satisfactorily implemented the Performance and Policy Actions (PPA) for fiscal year 2021.

**5. PNG has participated in the G-20 Debt Service Suspension Initiative (DSSI) and the suspension granted by lenders is included in this DSA.** The following amounts have been considered in the analysis: a total of US\$ 312.4 million for May-December 2020, and US\$ 35.8 million for January-June 2021. Prospective debt service suspension between July and December 2021 is not included.

**6. The IDA Sustainable Development Finance Policy (SDFP) supports PNG in addressing key debt vulnerabilities.** Fiscal risks from explicit and implicit contingent liabilities of the state-owned enterprise (SOE) sector are substantial. To improve the reporting of state guarantees, the World Bank is providing technical support to PNG's Department of Treasury and help amend the 2016 State Guarantee Policy document with a view to improve debt transparency and reporting practices.

## BACKGROUND ON MACROECONOMIC FORECASTS

**7. Economic activity in 2020 was significantly disrupted by the pandemic** (*Text Table 2*). Real GDP in 2020 is estimated to have contracted by 3 ½ percent due to weak demand for PNG's key exports and extended mine closures as well as the effects of mobility restrictions and changes in consumption patterns. The pre-crisis forecast (2019 Article IV Staff Report) had 2020 GDP growth at 2.0 percent. Headline inflation (period-average CPI) rose to 4.9 percent in 2020, reflecting spikes in food and medical prices and the depreciation of the kina. As lower export revenues were partly offset by weaker import demand (down 19 percent), the 2020 current account surplus remained largely unchanged from 2019. Gross international reserves increased by 17 percent from 2019. However, the budget had to be supported by official bilateral and multilateral partners, including by the Fund through a disbursement under the RCF.

**8. The resurgence of COVID-19 weakens the outlook for 2021.** PNG has one of the lowest COVID-19 vaccination rates in the world (merely 2 percent of the population is fully vaccinated, estimated based on number of doses administered, as of mid-November 2021), owing mainly to demand factors, particularly, widespread vaccine hesitancy. In the beginning of 2021, the country was hit by two consecutive COVID-19 waves which, among other things, caused reductions in resource sector output. By July, Covid-19 case numbers dropped considerably, suggesting a recovery in resource sector production. But already in September, a third COVID-19 wave hit PNG, with record case numbers, and resource production could not resume as anticipated, consequently lowering expectations for 2021 export receipts. Given the persistence of the COVID-19 shock on PNG, domestic demand continues to be subdued, with substantially weaker import growth than forecasted earlier. At 5.0 percent, 2021 inflation (period average consumer price index)

is expected to turn out significantly higher than projected in the previous DSA (3.7 percent), driven by high medical and food prices as well as persistent bottlenecks in global supply chains. The current account surplus continues to be large, and above 20 percent, owing mainly to strong global demand for PNG's exports goods. Increased spending needs to battle the COVID-19 pandemic have driven the primary fiscal deficit to an estimated 6 percent in 2021.

**Text Table 2. Papua New Guinea: Debt Sustainability Analysis Vintages: Macroeconomic and Fiscal Assumptions**

	DSA					
	Vintage	2020	2021	2022	2023	2024- 1/
<b>Real GDP growth y/y (in percent)</b>	<b>2021</b>	<b>-3.5</b>	<b>1.7</b>	<b>4.8</b>	<b>4.3</b>	<b>3.1</b>
	2020	-1.7	0.3	1.4	3.7	3.2
Resource sector	2021	-5.5	6.1	14.0	7.1	0.2
	2020	-13.8	14.6	9.5	4.3	3.4
Non-resource sector	2021	4.7	10.1	6.6	8.8	7.7
	2020	2.9	4.2	6.0	8.4	6.8
Memo: Pre-crisis medium-term projection 2/		2.0	2.8	2.9	3.2	
<b>Inflation, annual average (consumer prices, percent)</b>	<b>2021</b>	<b>4.9</b>	<b>5.0</b>	<b>5.6</b>	<b>4.7</b>	<b>4.5</b>
	2020	3.7	3.6	4.9	4.1	2.9
<b>Current account balance (percent of GDP)</b>	<b>2021</b>	<b>21.2</b>	<b>20.2</b>	<b>22.6</b>	<b>21.0</b>	<b>18.5</b>
	2020	14.6	18.6	17.6	16.5	14.0
Growth of exports of G&S (US\$, in percent)	2021	-20.4	11.0	15.1	4.7	3.2
	2020	-10.1	15.9	3.7	3.2	2.9
Growth of imports of G&S (US\$, in percent)	2021	-20.7	2.2	8.7	9.4	4.4
	2020	11.9	9.3	9.4	4.5	2.7
<b>Primary balance (percent of GDP)</b>	<b>2021</b>	<b>-6.0</b>	<b>-5.1</b>	<b>-3.7</b>	<b>-2.7</b>	<b>0.0</b>
	2020	-3.7	-2.5	-1.7	-1.2	0.0
Government revenues (excluding grants, percent of GDP)	2021	12.5	12.7	13.8	14.0	14.9
	2020	13.3	14.7	15.1	15.4	16.6

Source: PNG authorities; IMF staff estimates and projections.

Notes:

1/ Average refers to 2024-2041 (2021 DSA) and 2024-2040 (2020 DSA).

2/ Pre-crisis projection in 2019 Article IV Staff Report.

**9. Fiscal assumptions for 2022 under the SMP include a gradual consolidation while ensuring space for needed spending is preserved** (*Text Table 3*). PNG's National Economic Council (NEC) has approved a fiscal framework that targets an overall deficit of 6 percent of GDP, which has been published in the government's 2022 Budget Strategy Paper. This framework underpins the budget legislation and envisages an improvement in domestic revenues, driven by a cyclical improvement in tax revenues and policy measures taken to increase the contribution from SOEs following the passage of the Non-Tax Revenue Bill while expenditures will be focused on supporting the recovery, continuing the shift toward capital spending, adequately financing education, and the one-off allocation for the organization of the elections. Macroeconomic performance in 2022 will ultimately depend on how successfully PNG can roll out vaccines and incentivize vaccination.

**Text Table 3. Papua New Guinea: Summary of Fiscal Operations, 2020–22**  
(Percent of GDP, unless otherwise indicated)

	2020	2021		2022	Difference <sup>1/</sup> pp.
	Actual	Budget	Revised	Prog.	
<b>Revenue</b>	<b>14.2</b>	<b>14.0</b>	<b>14.4</b>	<b>15.6</b>	<b>1.2</b>
Tax revenue	11.5	12.0	11.7	12.3	0.6
<i>Of which: From cyclical improvements</i>					0.6
<i>Of which: From policy adjustments</i>					0.0
Non-tax revenue	1.0	0.9	1.0	1.5	0.5
<i>Of which: From cyclical improvements</i>					0.1
<i>Of which: From policy adjustments</i>					0.4
Grants	1.7	1.1	1.8	1.8	0.0
<b>Expenditure</b>	<b>22.7</b>	<b>21.2</b>	<b>21.8</b>	<b>21.6</b>	<b>-0.2</b>
Expense	18.6	17.1	17.6	16.6	-0.9
Compensation of employees	6.8	6.2	6.4	6.0	-0.4
Use of goods and services	6.3	6.3	6.5	6.0	-0.4
Of which: COVID-19 spending <sup>2/</sup>	0.6	0.6	0.6	0.0	-0.6
Of which: General election expenditure				0.8	0.8
Interest	2.5	2.4	2.2	2.3	0.1
Others <sup>3/</sup>	2.9	2.2	2.5	2.3	-0.2
Net acquisition of non-financial assets	4.1	4.1	4.2	5.0	0.8
<b>Net lending (+)/borrowing (-)</b>	<b>-8.6</b>	<b>-7.1</b>	<b>-7.4</b>	<b>-6.0</b>	<b>1.3</b>
Memo item:					
Nominal GDP (billions of kina)	85.3	92.7	93.1	101.0	

Sources: Country authorities, IMF staff.

<sup>1/</sup> Difference for 2022 relative to the revised fiscal projection for 2021.

<sup>2/</sup> COVID-19 related spending was allocated as a contingency in the 2021 Budget and is being booked as spending on goods and services. Some reallocation could occur when the Final Budget Outcome is reported in 2022.

<sup>3/</sup> Includes grants to regional governments, social spending and other current spending not elsewhere classified.

**10. Medium- to long-term projections include higher inflation and fiscal deficits—but also stronger exports growth and continued large current account surpluses.** At 3.1 percent, the long-term potential real growth estimate remains essentially unchanged from the 2020 DSA. Inflation is projected to remain significantly higher, however, at around 5 percent annual average, owing largely to imported inflation from global markets. As strong global demand for PNG's export goods is expected to persist over the medium-term, and with resource-sector projects that have been delayed by the pandemic coming on stream, the current account surplus is forecast to remain very large. The macroeconomic scenario further anticipates continued primary deficits but has built in a significant amount of fiscal consolidation compared to the 6 percent deficit projected for 2021, consistent with the SMP targets. Progress in boosting revenue generation has not lived up to expectations, and the projections now assume both slower and smaller increases in revenues, including over the long-term.

**11. Link between economic growth, public debt, and fiscal policy:** The main near-term risk continues to be the pandemic. A new variant (Omicron) that started spreading globally adds to these concerns. In the absence of faster progress on vaccinations, further restrictions and lockdowns are possible,

with the attendant impact on growth and external inflows, particularly if the resource sector is forced to shut down again due to a high number of infections. With limited sources of financing available in an adverse scenario and continued pressing social and development needs, the room for significant policy adjustment is relatively limited. If growth deteriorated significantly compared to the projections, further debt buildup may be needed to finance the budget and maintain government services. On the upside, higher commodity prices or a decision to go ahead with several resource projects, including Papua LNG, P'nyang LNG and the Wafi Golpu mining project, could boost growth and fiscal revenues over the medium term.

**12. Financing mix:** For domestic financing, the DSA assumes that the composition of T-bills and T-bonds remains unchanged compared to the past five years. For the near-term, the DSA considers existing commitments and, from 2025, the DSA assumes that, on average, one-third of the financing needs are covered from official multilateral and bilateral resources, while the rest is domestic financing, with a balanced mix of bonds and T-bills. During the SMP, there is a zero limit to new non-concessional external borrowing (NCB) by the Department of Treasury and Bank of Papua New Guinea; multilateral and official bilateral financial support is exempted from this limit. NCB may be allowed only in exceptional circumstances, which may be warranted when financing is needed for a project integral to the authorities' development program for which concessional financing is not available, or when non-concessional borrowing is used for debt management operations that improve the overall public debt profile. For 2022, IDA operations of SDR 111 million are envisioned to be delivered and to be entirely financed through PNG's PBA. This DSA assumes that IDA financing continues to be extended on blend credit terms.

## COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TEST

**13. PNG's debt carrying capacity is assessed as weak. According to the October 2021 World Economic Outlook and Country Policy and Institutional Assessment (CPIA), PNG's Composite Indicator (CI) index is 2.63, indicating weak debt-carrying capacity (Text Table 4).** Hence, the applicable thresholds are 30 percent for the present value (PV) of external debt-to-GDP ratio; 140 percent for the PV of the external debt-to-exports ratio; 10 percent for the external debt service-to-exports ratio; 14 percent for the external debt service-to-revenue ratio; and 35 percent for the PV of public debt-to GDP ratio, respectively.



**Text Table 4. Papua New Guinea: Composite Indicator and Applicable Thresholds****Calculation of the CI Index**

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	2.966	1.14	43%
Real growth rate (in percent)	2.719	2.629	0.07	3%
Import coverage of reserves (in percent)	4.052	42.419	1.72	65%
Import coverage of reserves <sup>2</sup> (in percent)	-3.990	17.994	-0.72	-27%
Remittances (in percent)	2.022	0.366	0.01	0%
World economic growth (in percent)	13.520	3.078	0.42	16%
<b>CI Score</b>			<b>2.64</b>	<b>100%</b>
<b>CI rating</b>			<b>Weak</b>	

**Applicable thresholds**

APPLICABLE		APPLICABLE	
<b>EXTERNAL debt burden thresholds</b>		<b>TOTAL public debt benchmark</b>	
PV of debt in % of		PV of total public debt in	
Exports	140	percent of GDP	35
GDP	30		
Debt service in % of			
Exports	10		
Revenue	14		

**14. Scenario stress tests:** As indicated in the section on public debt coverage, a contingent liabilities stress test is included to account for SOE debt not captured in official public debt data. In the context of the previous SMP, which expired in end-June 2021, the authorities initiated an SOE reform program to reduce the backlog of audited annual financial statements and to strengthen SOE oversight and improve understanding of fiscal risks. This program includes a detailed review of SOE debt and government guarantees and is also expected to improve the reporting of public debt. Further, given the size and importance of PNG's resource sector (with a share of commodities in total exports of goods and services of 96 percent), a commodity price shock is included in the DSA. Considering the high price volatility over the past two year, the fuel price shock is set at 35 percent (compared to the default shock of 27 percent) and the shock to non-fuel commodity prices is set to 21 percent—with 20 percent for base metals and precious metals, and 22 percent for agricultural commodities other than grain (price shocks to grain like wheat, corn, and soybeans, are not relevant for PNG and, therefore, not included in the stress test). Mitigating factors are included as well, and at default values (2 percent for fuel, and 27 percent for non-fuel). Separately, a third stress test is included to simulate market financing pressures, using standard assumptions, including for exchange rate depreciation (15 percent).

## DEBT SUSTAINABILITY

### A. External Debt Sustainability Analysis

**15. Under the baseline scenario, the debt-service to revenue indicator is projected to breach its threshold.** There is a small breach in 2026, and a relatively large breach in 2028, when a bullet payment for the 2018 Eurobond is due. The authorities do not plan, at least not at this juncture, to roll over this bond. After 2028, the indicator remains close to the threshold and the marginal breaches of the threshold are merely short-lived (one year). The projections further show one small and short-lived breach of the debt service-to-exports ratio, which is discounted as well, and on the same grounds. The present value of the debt-to-GDP ratio as well as the debt-to-exports ratio are below their respective thresholds over the entire projection horizon, and on a clear downward trend.

**16. Stress tests point to vulnerabilities in PNG's external debt dynamics particularly with respect to exports shocks, which would cause threshold breaches for all four external sustainability indicators.** Changes in policy and the structure of the economy manifests in a divergence between the historical scenario and the baseline.

**17. As in the past, the assessment of debt dynamics is hampered by large residuals from external financial flows from money transfer by resource companies via offshore accounts.**

### B. Public Sector Debt Sustainability Analysis

**18. Public debt ratios have increased substantially in recent years and reached almost 50 percent of GDP in 2020.** Starting from this level means that the public debt sustainability indicator is in breach of the threshold for countries with weak debt-carrying capacity (that is, 35 percent of GDP) during the first half of the projection horizon but, with public debt coming down, meets the threshold from 2031. Similarly, the debt-to-revenue ratio sees a continuous downward trend over the projection horizon.

## RISK RATINGS AND VULNERABILITIES

**19. PNG remains at "high" risk of external and overall debt distress.** The (mechanical) external debt distress rating as well as the overall debt distress rating are "high", owing to the breaches of sustainability thresholds discussed in the previous section. No staff judgement has been applied to these ratings.

**20. Debt service on existing loans, paired with relatively weak revenue generation, are expected to almost double the debt service-to-revenue ratio over the medium term.** However, as debt service reduces and revenues increase, and barring further shocks to demand growth, the indicator enters a significant downward trend from its peak in 2026.

**21. Stress tests show that adverse shocks to exports constitute the main risk to public debt sustainability.** Further, the historical scenario indicates that it will be challenging to reduce debt from

current levels and that reforms, including those envisaged in the SMP, are essential for supporting the sustainability of public finances.

**22. Debt dynamics are assessed as sustainable.** Public debt is expected not to increase significantly in the near term and to enter a clear downward path over the medium term. Also, the projected temporary breaches of sustainability indicators can be prevented by debt management operations as well as by boosting revenue generation. The external debt-to-GDP and debt-to-exports ratios are below their thresholds over the entire projection horizon. Public external and overall debt is judged to be sustainable conditional on the implementation of the policy measures part of the SMP.

## AUTHORITIES' VIEWS

**23. The authorities took note of Staff's assessment that PNG remains at high risk of debt distress.** In discussions, the authorities agree that large financing requirements to dampen the effects of the COVID-19 pandemic on PNG's economy have left their mark on public debt. Fiscal consolidation and conservative financing strategies will help support the sustainability of PNG's debt going forward.

**Table 1. Papua New Guinea: External Debt Sustainability Framework, Baseline Scenario, 2018-2041**  
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
<b>External debt (nominal) 1/</b>	71.4	62.6	69.2	68.1	65.9	63.8	60.9	59.7	57.8	45.0	25.9	75.7	57.2
<i>of which: public and publicly guaranteed (PPG)</i>	15.2	18.0	23.0	24.9	25.3	25.5	24.2	24.4	23.9	15.9	5.5	6.7	22.4
Change in external debt	-3.7	-8.9	6.6	-1.1	-2.2	-2.1	-2.9	-1.2	-1.9	-2.7	-2.0		
<b>Identified net debt-creating flows</b>	-28.6	-24.7	-20.2	-21.3	-25.6	-23.6	-22.2	-21.4	-20.5	-17.3	-11.2	-10.0	-20.8
<b>Non-interest current account deficit</b>	-27.0	-25.5	-23.0	-24.0	-24.2	-22.5	-21.6	-20.7	-20.8	-17.3	-11.2	-9.2	-20.9
Deficit in balance of goods and services	-25.1	-26.5	-21.5	-23.3	-25.6	-24.1	-23.0	-22.2	-21.1	-17.9	-11.6	-9.3	-21.5
Exports	41.7	47.6	38.4	39.1	41.5	40.2	38.7	37.5	35.4	30.6	22.9		
Imports	16.6	21.0	16.9	15.9	15.9	16.0	15.7	15.3	14.3	12.7	11.3		
Net current transfers (negative = inflow)	-1.5	-1.3	-1.4	-1.0	-1.0	-0.9	-1.2	-1.1	-1.1	-0.8	-0.4	-1.0	-1.0
<i>of which: official</i>	-0.5	-1.4	-1.2	-0.9	-0.9	-0.8	-0.8	-0.7	-0.7	-0.5	-0.3		
Other current account flows (negative = net inflow)	-0.4	2.3	0.0	0.3	2.4	2.5	2.6	2.6	1.4	1.3	0.8	1.2	1.6
<b>Net FDI (negative = inflow)</b>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Endogenous debt dynamics 2/</b>	-1.6	0.8	2.8	2.7	-1.4	-1.1	-0.6	-0.8	0.3	0.0	0.1	0.0	0.0
Contribution from nominal interest rate	2.7	2.6	1.8	3.8	1.6	1.5	1.2	1.0	2.0	1.4	0.9		
Contribution from real GDP growth	0.2	-3.1	2.2	-1.1	-3.0	-2.6	-1.8	-1.7	-1.7	-1.4	-0.9		
Contribution from price and exchange rate changes	-4.5	1.3	-1.2	...	...	...	...	...	...	...	...		
<b>Residual 3/</b>	25.0	15.9	26.8	20.3	23.4	21.5	19.3	20.2	18.6	14.6	9.1	12.8	18.6
<i>of which: exceptional financing</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
<b>Sustainability indicators</b>													
<b>PV of PPG external debt-to-GDP ratio</b>	...	...	28.4	26.2	25.7	25.0	23.3	23.3	21.7	14.3	5.7		
<b>PV of PPG external debt-to-exports ratio</b>	...	...	73.9	67.0	61.9	62.2	60.4	62.2	61.2	46.8	24.9		
<b>PPG debt service-to-exports ratio</b>	1.6	2.2	8.5	10.0	3.0	3.9	5.4	4.3	8.1	7.0	5.4		
<b>PPG debt service-to-revenue ratio</b>	4.2	7.3	26.1	30.9	9.0	11.1	14.6	11.0	19.8	14.0	8.6		
Gross external financing need (Million of U.S. dollars)	-3883.1	-3472.8	-3187.8	-3515.6	-4815.4	-4533.6	-4760.4	-4938.7	-5762.5	-5700.6	-7396.7		
<b>Key macroeconomic assumptions</b>													
Real GDP growth (in percent)	-0.3	4.5	-3.5	1.7	4.8	4.3	3.0	3.0	3.0	3.0	3.3	3.9	3.2
GDP deflator in US dollar terms (change in percent)	6.3	-1.7	2.0	7.2	3.6	3.8	3.2	3.1	3.1	3.3	3.4	2.1	3.6
Effective interest rate (percent) 4/	3.8	3.8	2.8	5.9	2.6	2.5	2.0	1.7	3.6	3.1	3.5	3.0	3.3
Growth of exports of G&S (US dollar terms, in percent)	-2.5	17.2	-20.4	11.0	15.1	4.7	2.3	2.9	0.3	2.6	8.7	6.0	4.8
Growth of imports of G&S (US dollar terms, in percent)	6.4	30.3	-20.7	2.2	8.7	9.4	3.7	3.7	-0.7	3.9	15.7	-1.3	4.2
Grant element of new public sector borrowing (in percent)	...	...	...	44.1	44.8	43.6	46.7	28.5	24.5	16.8	13.8	...	30.0
Government revenues (excluding grants, in percent of GDP)	15.4	14.2	12.5	12.7	13.8	14.0	14.4	14.7	14.5	15.2	14.3	14.4	14.3
Aid flows (in Million of US dollars) 5/	1431.2	1258.7	1731.2	1347.8	1084.8	1116.4	754.8	749.1	693.2	521.5	693.4		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	4.0	3.1	2.8	2.2	2.2	1.9	1.2	0.8	...	2.1
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	58.7	66.5	63.7	74.0	54.4	56.3	55.9	56.7	...	59.0
Nominal GDP (Million of US dollars)	24,110	24,751	24,364	26,573	28,836	31,235	33,182	35,223	37,403	50,665	96,038		
Nominal dollar GDP growth	6.0	2.7	-1.6	9.1	8.5	8.3	6.2	6.2	6.2	6.4	6.8	5.9	6.9
<b>Memorandum items:</b>													
PV of external debt 7/	...	...	74.6	69.4	66.3	63.2	60.1	58.6	55.5	43.4	26.1		
In percent of exports	...	...	194.1	177.4	159.6	157.4	155.4	156.4	157.0	141.9	114.1		
Total external debt service-to-exports ratio	26.3	24.1	25.8	27.5	18.1	19.9	18.8	17.7	15.2	19.9	15.4		
PV of PPG external debt (in Million of US dollars)	...	...	6923.9	6974.2	7408.0	7798.3	7747.7	8211.5	8100.8	7258.1	5484.8		
(PVt-PVt-1)/GDPt-1 (in percent)	...	...	...	0.2	1.6	1.4	-0.2	1.4	-0.3	-0.5	-0.3		
Non-interest current account deficit that stabilizes debt ratio	-23.4	-16.6	-29.6	-22.9	-22.0	-20.4	-18.7	-19.5	-18.9	-14.6	-9.2		

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as  $[r - g - \rho(1+g) + \epsilon\alpha(1+r)] / (1+g+\rho+gp)$  times previous period debt ratio, with  $r$  = nominal interest rate;  $g$  = real GDP growth rate,  $\rho$  = growth rate of GDP deflator in U.S. dollar terms,  $\epsilon$  = nominal appreciation of the local currency,

and  $\alpha$  = share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

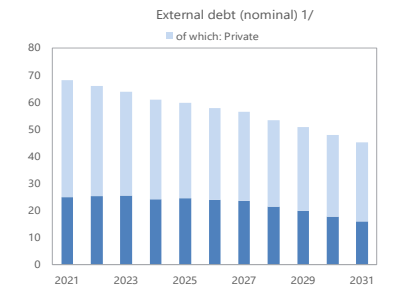
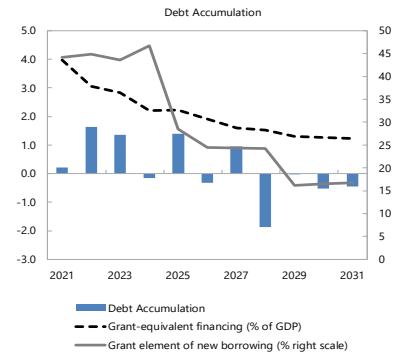
5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No



**Table 2. Papua New Guinea: Public Debt Sector Sustainability Framework, Baseline Scenario, 2018-2041**  
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
Public sector debt 1/	36.7	41.5	49.0	56.0	58.4	58.5	58.3	57.1	56.6	35.6	14.4	26.3	50.8
of which: external debt	15.2	18.0	23.0	24.9	25.3	25.5	24.2	24.4	23.9	15.9	5.5	6.7	22.4
Change in public sector debt	2.0	4.7	7.5	7.0	2.4	0.1	-0.2	-1.2	-0.5	-3.8	-0.7	3.8	-0.8
Identified debt-creating flows	0.0	2.8	8.4	6.9	2.8	0.6	0.1	-0.8	-0.1	-3.3	-1.5	2.5	0.1
Primary deficit	0.2	1.9	6.0	5.1	3.7	2.7	1.1	0.0	-0.6	-2.6	-1.2	16.1	15.6
Revenue and grants	17.7	16.3	14.2	14.4	15.6	15.6	15.9	16.2	15.9	16.2	15.0	18.6	15.8
of which: grants	2.3	2.1	1.7	1.8	1.8	1.6	1.5	1.5	1.4	1.0	0.7		
Primary (noninterest) expenditure	18.0	18.2	20.2	19.6	19.3	18.3	17.1	16.3	15.3	13.6	13.8		
Automatic debt dynamics	-0.2	0.9	2.4	1.8	-1.0	-2.1	-1.0	-0.9	0.5	-0.7	-0.3		
Contribution from interest rate/growth differential	0.1	0.7	2.6	1.8	-1.0	-2.1	-1.0	-0.9	0.5	-0.7	-0.3		
of which: contribution from average real interest rate	0.0	2.2	1.1	2.6	1.6	0.4	0.7	0.8	2.1	0.4	0.2		
of which: contribution from real GDP growth	0.1	-1.6	1.5	-0.8	-2.6	-2.4	-1.7	-1.7	-1.7	-1.2	-0.5		
Contribution from real exchange rate depreciation	-0.3	0.3	-0.2	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	2.0	1.9	-0.9	0.1	-0.4	-0.5	-0.3	-0.4	-0.4	-0.5	0.8	1.0	-0.4
<b>Sustainability indicators</b>													
PV of public debt-to-GDP ratio 2/	...	...	54.5	57.4	58.8	58.0	57.5	56.1	54.3	34.1	14.8		
PV of public debt-to-revenue and grants ratio	...	...	384.6	397.8	377.5	371.7	361.6	345.5	341.3	210.4	99.0		
Debt service-to-revenue and grants ratio 3/	103.0	109.8	140.0	65.9	75.2	102.2	114.0	124.8	134.9	91.7	41.7		
Gross financing need 4/	18.5	19.8	25.9	14.6	15.4	18.6	19.3	20.3	20.9	12.2	5.1		
<b>Key macroeconomic and fiscal assumptions</b>													
Real GDP growth (in percent)	-0.3	4.5	-3.5	1.7	4.8	4.3	3.0	3.0	3.0	3.0	3.3	3.9	3.2
Average nominal interest rate on external debt (in percent)	2.6	3.9	2.7	13.0	3.4	3.7	3.2	2.9	8.1	1.3	1.9	3.0	4.4
Average real interest rate on domestic debt (in percent)	-0.2	9.4	3.5	0.4	4.1	-0.3	1.1	1.8	2.2	2.3	1.9	4.6	0.5
Real exchange rate depreciation (in percent, + indicates depreciation)	-2.8	1.9	-1.2	...	...	...	...	...	...	...	...	1.0	...
Inflation rate (GDP deflator, in percent)	9.8	1.1	5.5	7.2	3.6	3.8	3.2	3.1	3.1	3.3	3.4	4.3	5.4
Growth of real primary spending (deflated by GDP deflator, in percent)	10.3	5.8	7.0	-1.5	3.5	-1.4	-3.8	-1.9	-2.7	3.1	3.5	4.1	-0.4
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-1.7	-2.9	-1.5	-1.8	1.4	2.5	1.3	1.2	0.0	1.2	-0.5	-2.0	1.4
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central, state, and local governments, government-guaranteed debt. Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

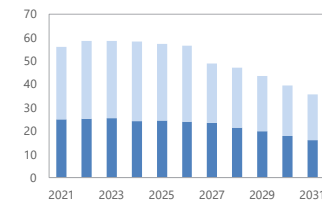
5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio (-): a primary surplus, which would stabilize the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

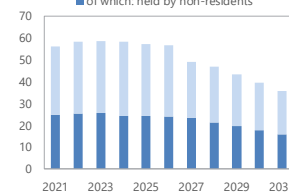
Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No

Public sector debt 1/

■ of which: local-currency denominated  
■ of which: foreign-currency denominated



■ of which: held by residents  
■ of which: held by non-residents



**Figure 1. Papua New Guinea: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2021-2031**



Customization of Default Settings		
	Size	Interactions
<b>Tailored Stress</b>		
Combined CL	Yes	
Natural disaster	n.a.	n.a.
Commodity price	Yes	No
Market financing	No	No

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

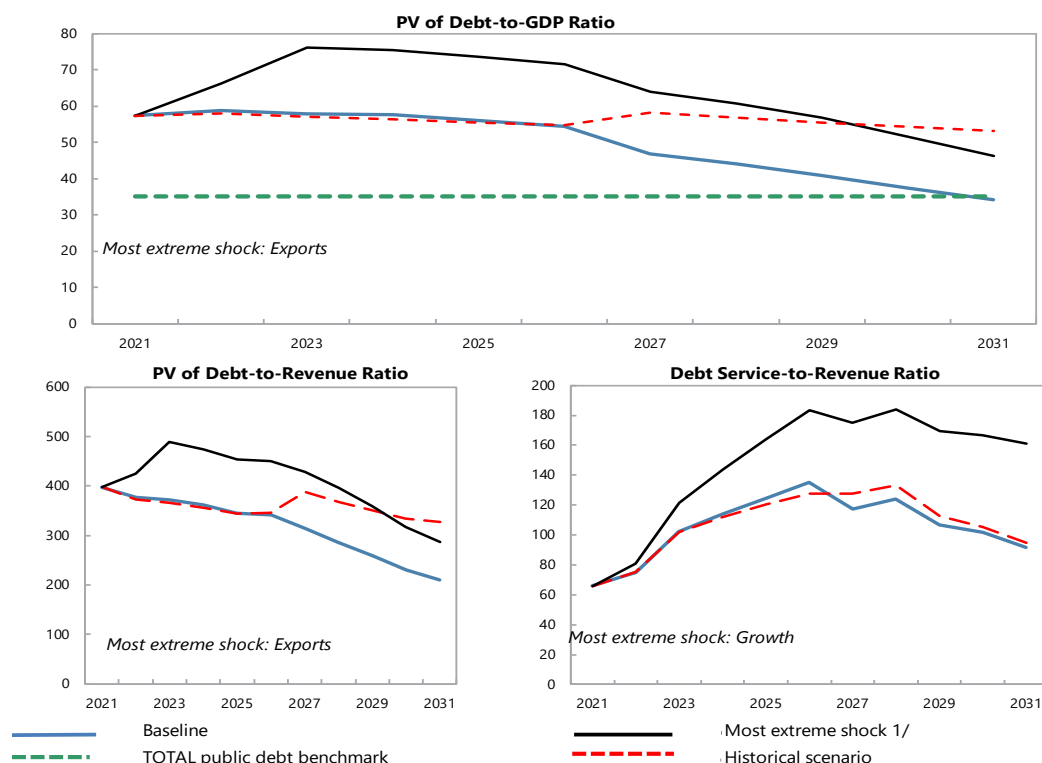
Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
<b>Shares of marginal debt</b>		
External PPG MLT debt	100%	
<b>Terms of marginal debt</b>		
Avg. nominal interest rate on new borrowing in USD	1.3%	1.3%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	17	17
Avg. grace period	6	6

\* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

**Figure 2. Papua New Guinea: Indicators of Public Debt Under Alternative Scenarios, 2021-2031**



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
<b>Shares of marginal debt</b>		
External PPG medium and long-term	13%	13%
Domestic medium and long-term	42%	42%
Domestic short-term	45%	45%
<b>Terms of marginal debt</b>		
<b>External MLT debt</b>		
Avg. nominal interest rate on new borrowing in USD	1.3%	1.3%
Avg. maturity (incl. grace period)	17	17
Avg. grace period	6	6
<b>Domestic MLT debt</b>		
Avg. real interest rate on new borrowing	2.0%	2.0%
Avg. maturity (incl. grace period)	2	2
Avg. grace period	1	1
<b>Domestic short-term debt</b>		
Avg. real interest rate	0.2%	0.2%

\* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

**Table 3. Papua New Guinea: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2021-2031**

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
<b>PV of debt-to GDP ratio</b>											
<b>Baseline</b>	26	26	25	23	23	22	21	18	17	16	14
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2021-2031 2/	26	<b>36</b>	<b>45</b>	<b>52</b>	<b>59</b>	<b>65</b>	<b>71</b>	<b>75</b>	<b>79</b>	<b>81</b>	<b>82</b>
<b>B. Bound Tests</b>											
B1. Real GDP growth	26	28	29	27	27	25	25	21	20	18	17
B2. Primary balance	26	26	26	24	24	23	23	20	19	17	16
B3. Exports	26	<b>35</b>	<b>47</b>	<b>45</b>	<b>44</b>	<b>42</b>	<b>42</b>	<b>38</b>	<b>36</b>	<b>32</b>	29
B4. Other flows 3/	26	26	26	24	24	22	22	19	18	16	15
B5. Depreciation	26	<b>32</b>	<b>34</b>	<b>32</b>	<b>32</b>	29	29	25	24	22	20
B6. Combination of B1-B5	26	<b>34</b>	<b>36</b>	<b>34</b>	<b>34</b>	<b>31</b>	<b>31</b>	27	26	23	21
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	26	27	27	26	27	26	26	23	23	21	20
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	26	<b>31</b>	<b>35</b>	<b>34</b>	<b>35</b>	<b>34</b>	<b>34</b>	<b>32</b>	<b>30</b>	29	27
C4. Market Financing	26										
<b>Threshold</b>	30	30	30	30	30	30	30	30	30	30	30
<b>PV of debt-to-exports ratio</b>											
<b>Baseline</b>	67	62	62	60	62	61	62	54	52	49	47
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2021-2031 2/	67	88	112	134	<b>157</b>	<b>183</b>	<b>206</b>	<b>223</b>	<b>241</b>	<b>256</b>	<b>268</b>
<b>B. Bound Tests</b>											
B1. Real GDP growth	67	62	62	60	62	61	62	54	52	49	47
B2. Primary balance	67	62	64	63	65	65	66	58	57	55	52
B3. Exports	67	108	<b>180</b>	<b>179</b>	<b>183</b>	<b>184</b>	<b>185</b>	<b>173</b>	<b>169</b>	<b>156</b>	<b>145</b>
B4. Other flows 3/	67	63	64	62	64	63	63	56	54	51	48
B5. Depreciation	67	62	67	65	67	66	67	59	58	54	51
B6. Combination of B1-B5	67	89	78	101	104	103	104	94	90	84	79
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	67	65	67	68	72	73	75	69	69	67	66
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	67	89	100	99	102	102	102	96	96	93	90
C4. Market Financing	67										
<b>Threshold</b>	140	140	140	140	140	140	140	140	140	140	140
<b>Debt service-to-exports ratio</b>											
<b>Baseline</b>	10	3	4	5	4	8	4	12	6	7	7
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2021-2031 2/	10	3	5	7	6	10	7	15	12	16	18
<b>B. Bound Tests</b>											
B1. Real GDP growth	10	3	4	5	4	8	4	12	6	7	7
B2. Primary balance	10	3	4	6	4	8	4	12	6	8	7
B3. Exports	10	4	7	11	9	15	9	21	15	22	21
B4. Other flows 3/	10	3	4	5	4	8	4	12	6	7	7
B5. Depreciation	10	3	4	6	4	8	4	12	6	8	8
B6. Combination of B1-B5	10	4	5	8	6	11	6	16	10	12	12
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	10	3	4	6	4	8	4	12	6	8	7
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	10	4	5	7	5	10	5	14	8	11	11
C4. Market Financing	10										
<b>Threshold</b>	10	10	10	10	10	10	10	10	10	10	10
<b>Debt service-to-revenue ratio</b>											
<b>Baseline</b>	31	9	11	15	11	20	11	28	13	15	14
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2021-2031 2/	31	9	13	18	15	25	16	35	26	34	37
<b>B. Bound Tests</b>											
B1. Real GDP growth	31	10	13	17	13	23	13	33	16	18	16
B2. Primary balance	31	9	11	15	11	20	11	29	14	16	15
B3. Exports	31	9	13	18	14	24	14	33	21	30	28
B4. Other flows 3/	31	9	11	15	11	20	11	28	13	16	14
B5. Depreciation	31	11	14	19	14	25	14	36	17	21	19
B6. Combination of B1-B5	31	10	13	18	13	23	13	33	19	22	20
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	31	9	11	15	11	20	11	29	14	16	15
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	31	10	14	18	14	23	13	31	18	23	22
<b>Threshold</b>	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Includes official and private transfers and FDI.



**Table 4. Papua New Guinea: Sensitivity Analysis for Key Indicators of Public Debt, 2021-2031**

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
<b>PV of Debt-to-GDP Ratio</b>											
<b>Baseline</b>	<b>57</b>	<b>59</b>	<b>58</b>	<b>58</b>	<b>56</b>	<b>54</b>	<b>47</b>	<b>44</b>	<b>41</b>	<b>37</b>	<b>34</b>
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2021-2031 2/	57	58	57	56	56	55	58	57	56	54	53
<b>B. Bound Tests</b>											
B1. Real GDP growth	57	65	72	73	74	74	67	66	64	62	60
B2. Primary balance	57	61	63	62	60	59	51	48	45	41	38
B3. Exports	57	66	76	75	74	72	64	61	57	51	46
B4. Other flows 3/	57	59	59	58	57	55	47	44	41	38	34
B5. Depreciation	57	63	61	59	56	54	46	42	39	34	30
B6. Combination of B1-B5	57	59	61	61	60	58	51	48	46	42	39
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	57	75	73	72	70	68	60	57	53	50	46
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	57	62	65	69	72	73	68	67	65	63	61
C4. Market Financing	57										
<b>TOTAL public debt benchmark</b>	35	35	35	35	35	35	35	35	35	35	35
<b>PV of Debt-to-Revenue Ratio</b>											
<b>Baseline</b>	<b>398</b>	<b>378</b>	<b>372</b>	<b>362</b>	<b>345</b>	<b>341</b>	<b>314</b>	<b>287</b>	<b>259</b>	<b>231</b>	<b>210</b>
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2021-2031 2/	398	372	366	355	343	346	387	368	351	334	327
<b>B. Bound Tests</b>											
B1. Real GDP growth	398	414	451	454	448	458	444	422	401	377	365
B2. Primary balance	398	392	402	390	372	368	341	312	283	253	232
B3. Exports	398	425	488	474	454	450	428	396	360	317	286
B4. Other flows 3/	398	379	375	365	349	345	318	290	262	234	213
B5. Depreciation	398	409	393	374	351	339	312	278	246	213	189
B6. Combination of B1-B5	398	379	387	380	366	365	341	315	289	261	242
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	398	482	471	455	433	428	403	370	338	305	282
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	398	440	461	482	476	483	465	431	410	387	375
C4. Market Financing	398										
<b>Debt Service-to-Revenue Ratio</b>											
<b>Baseline</b>	<b>66</b>	<b>75</b>	<b>102</b>	<b>114</b>	<b>125</b>	<b>135</b>	<b>117</b>	<b>124</b>	<b>107</b>	<b>101</b>	<b>92</b>
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2021-2031 2/	66	75	102	112	120	128	128	133	112	105	94
<b>B. Bound Tests</b>											
B1. Real GDP growth	66	81	122	144	164	183	175	184	170	167	161
B2. Primary balance	66	75	109	130	141	149	132	136	118	111	101
B3. Exports	66	75	103	116	127	137	119	126	112	113	102
B4. Other flows 3/	66	75	102	114	125	135	117	124	107	102	92
B5. Depreciation	66	71	99	111	119	132	111	125	104	100	89
B6. Combination of B1-B5	66	74	105	118	130	142	127	134	118	113	104
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	66	75	152	178	173	183	164	162	142	132	119
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	66	85	117	132	154	177	169	174	162	161	157
C4. Market Financing											

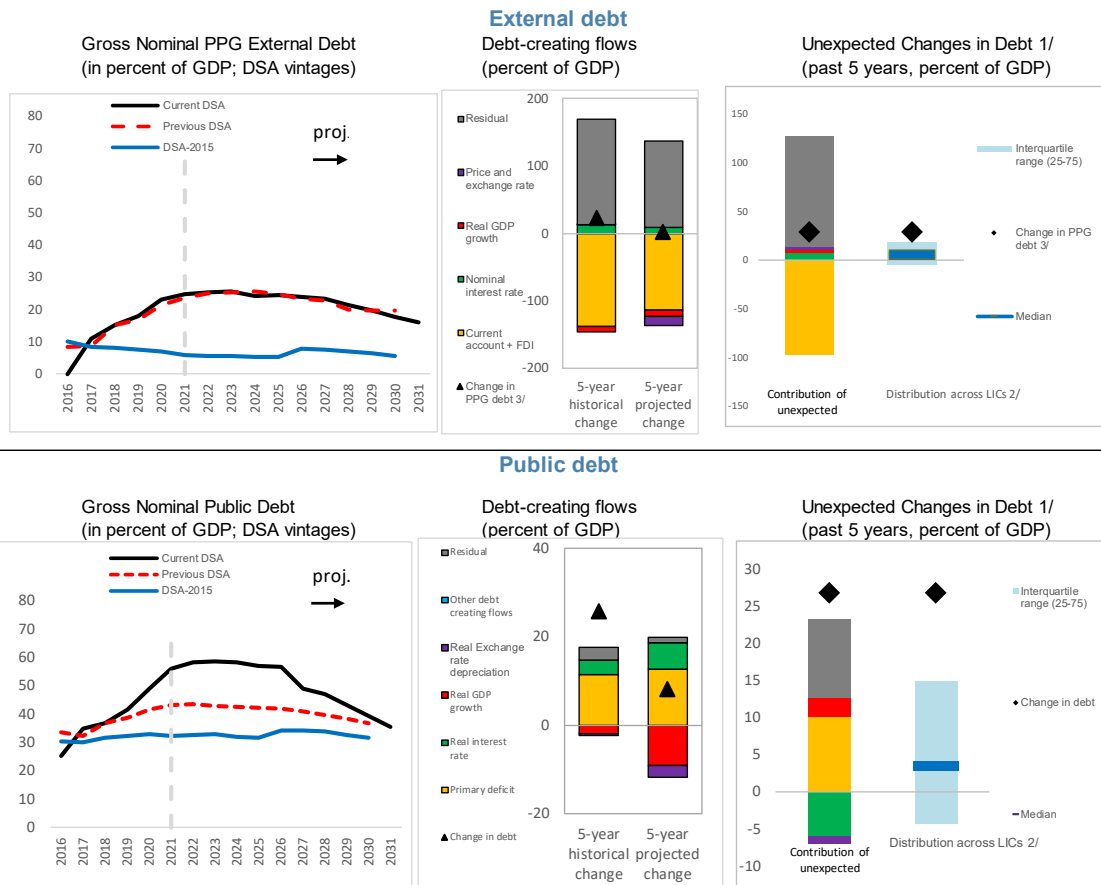
Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

**Figure 3. Papua New Guinea: Drivers of Debt Dynamics – Baseline Scenario**



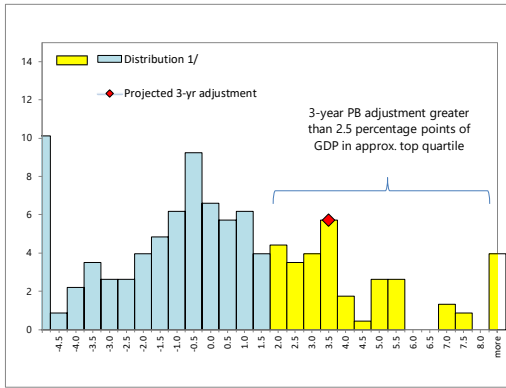
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

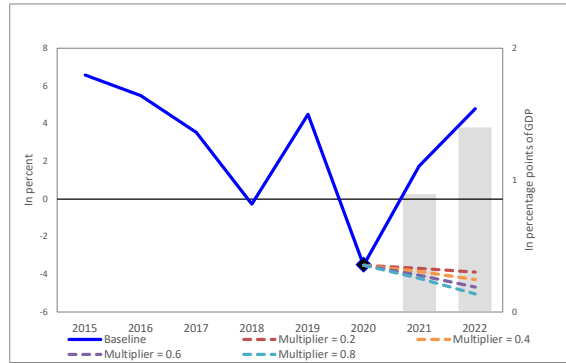
**Figure 4. Papua New Guinea: Realism Tools**

**3-Year Adjustment in Primary Balance  
(Percentage points of GDP)**



1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

**Fiscal Adjustment and Possible Growth Paths 1/**



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

**Public and Private Investment Rates  
(percent of GDP)**

