INTERNATIONAL MONETARY FUND

IMF Country Report No. 24/231

PAPUA NEW GUINEA

July 2024

SECOND REVIEWS UNDER EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, AND REQUEST FOR MODIFICATION OF QUANTITATIVE PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR PAPUA NEW GUINEA

In the context of the Second Reviews under extended arrangement under the Extended fund Facility and an arrangement under the Extended credit Facility, and Request for modification of quantitative performance criteria, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 12, 2024, following discussions that ended on May 8, 2024, with the officials of Papua New Guinea on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility and the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on June 17, 2024.
- A **Statement by the Executive Director** for Papua New Guinea.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR 24/272

IMF Executive Board Completes the Second Reviews Under the Extended Credit Facility and Extended Fund Facility Arrangements for Papua New Guinea

FOR IMMEDIATE RELEASE

- The IMF Executive Board completed the Second Reviews under the 38-month ECF/EFF arrangements for Papua New Guinea, providing the country with immediate access to about US$125 million.
- The program performance recorded over the second review period continues to attest to the authorities' strong commitment to reforms. They have successfully advanced the implementation of their reform agenda, while overcoming technical and institutional capacity constraints.
- The program will continue to support Papua New Guinea's reform agenda, help protect the vulnerable and foster inclusive growth, with a focus maintained on strengthening debt sustainability, alleviating FX shortages, and enhancing governance and anti-corruption frameworks.

Washington, DC: The Executive Board of the International Monetary Fund (IMF) completed today the Second Reviews of Papua New Guinea's Fund-supported program. The 38-month Extended Credit Facility and Extended Fund Facility (ECF/EFF) arrangements, approved on March 22, 2023, support the authorities' reforms to address long-standing structural impediments to inclusive growth. This review completion allows for the immediate disbursement of SDR 94.75 million (about US$125 million) toward budget support, bringing total disbursements under the program so far to SDR 226 million (about US$299 million).

Papua New Guinea's economic outlook remains positive. Growth is expected to increase in 2024 to 4.6 percent from 2.9 percent in 2023, supported by the resumption of activities at the Porgera gold mine and by favorable commodity prices. Inflation is expected to normalize towards its historical average of around 5 percent. Gross international reserves stood comfortably at US$ 3.9 bn at end-2023, or 6.6 months of total imports, providing space to continue implementing central banking reforms. In completing the review, the Executive Board also approved a waiver of applicability for three end-June 2024 performance criteria, for which data are not yet available.

The medium-term outlook is positive but subject to risks. On the upside the start of the construction of major resource projects, which are not yet in the baseline scenario, could yield additional economic growth in the medium run, as well as gains in exports and fiscal revenues once they are operational. On the downside, Papua New Guinea is vulnerable to both domestic and external shocks, exacerbated by public debt, FX shortages, and capacity constraints that impact the government's ability to formulate and implement economic stabilization and development policies. Papua New Guinea is also vulnerable to the consequences of climate change and particularly exposed to severe climate-related disasters.

Program performance has been satisfactory, with the authorities displaying a continued commitment to reforms. All end-December 2023 quantitative performance criteria and indicative targets were met, and most structural benchmarks have been implemented.

At the conclusion of the Executive Board's discussion, Mr. Bo Li, Deputy Managing Director, and Acting Chair, made the following statement:

"The satisfactory program performance recorded over the second review period of the ECF/EFF arrangements continues to attest to the authorities' strong commitment to reforms. They have successfully advanced the implementation of their reform agenda, while overcoming technical and institutional capacity constraints. The government is staying the course on its fiscal consolidation strategy, as the deficit was more than halved over the past three years. The central bank has successfully shifted to a crawl-like exchange rate arrangement, starting a gradual return to greater exchange rate flexibility and Kina convertibility; and its governance has been strengthened through the appointment of a permanent Governor and of a full Board. The operationalization of the Independent Commission Against Corruption is underway.

"The authorities should now build on these achievements and sustain their reform efforts towards more resilient, inclusive and sustainable growth. To address debt vulnerabilities, fiscal consolidation should continue, while creating fiscal space to meet development and climate adaptation needs and devising contingency plans to anticipate the possible materialization of fiscal risks, including from natural disasters. Accelerating the implementation of the Medium-Term Revenue Strategy will help to durably mobilize domestic revenue, while enhancements in public expenditure management will contribute to more efficient spending.

"The central bank is encouraged to persist in bringing the Kina closer to its market-clearing rate, while keeping inflation in check through appropriate monetary tightening, and to continue modernizing its monetary policy operations, in line with its sequenced roadmap of reforms. Providing appropriate resources and ensuring effective access to information will be critical for the Independent Commission Against Corruption to become fully operational.

"Given PNG's high vulnerability to climate change, adaptation and disaster management policies are critical to the success of the authorities' development strategy.

"The ECF/EFF arrangements will continue to support this homegrown reform agenda, helping to address balance of payment needs and rebuild buffers while avoiding disruptive adjustment, and catalyzing support from other international partners. Timely technical assistance and advice from the IMF will continue to accompany reform implementation."

Table 1. Papua New Guinea: Selected Economic and Financial Indicators, 2020-2029

Nominal GDP (2021): US$26.3 billion 1/
Population (2021): 11.8 million
GDP per capita (2021): US$2,217
Quota: SDR 263.2 million

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
		Est.	Est.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percentage change)									
Real sector										
Real GDP growth	-3.2	-0.8	5.2	2.9	4.6	3.7	3.4	3.0	3.1	3.1
Resource 2/	-9.2	-11.6	5.1	-0.4	5.3	2.1	1.4	0.1	0.2	0.2
Non-resource	-0.4	3.8	5.2	4.1	4.4	4.2	4.1	4.0	4.0	4.0
Mining and quarrying (percent of GDP)	10.2	8.2	8.2	8.7	9.5	10.2	10.5	10.3	10.1	9.9
Oil and gas extraction (percent of GDP)	14.1	17.1	23.7	17.8	17.5	16.9	15.8	14.8	13.8	12.9
CPI (annual average)	4.9	4.5	5.3	2.3	4.4	4.8	4.8	4.6	4.5	4.5
CPI (end-period)	5.1	5.7	3.4	3.9	5.0	4.8	4.8	4.6	4.5	4.5
	(In percent of GDP)									
Central government operations										
Revenue and grants	14.7	15.1	16.7	17.8	18.3	18.5	18.8	19.3	19.4	19.9
Of which: Resource revenue	0.9	1.1	3.9	3.9	3.4	3.7	3.7	3.7	3.8	4.0
Expenditure and net lending	23.5	22.0	21.9	22.1	22.2	21.1	20.2	19.3	19.3	19.6
Net lending(+)/borrowing(-)	-8.9	-6.8	-5.3	-4.3	-3.9	-2.6	-1.4	0.0	0.2	0.4
Non-resource net lending(+)/borrowing(-)	-9.8	-8.0	-9.2	-8.2	-7.3	-6.3	-5.1	-3.7	-3.6	-3.6
	(Percentage change)									
Money and credit										
Domestic credit	2.3	15.9	1.5	14.9	11.1	9.6	4.1	5.1	16.8	5.3
Credit to the private sector	4.2	2.5	6.9	14.9	9.8	9.0	8.8	8.6	8.6	8.5
Broad money	7.0	13.4	14.7	9.9	-0.2	6.0	7.5	8.1	9.1	9.2
	(In billions of U.S. dollars)									
Balance of payments										
Exports, f.o.b.	9.1	11.3	14.4	13.9	14.4	15.3	15.8	15.9	16.3	16.9
Imports, c.i.f.	-3.7	-5.1	-5.3	-5.4	-5.1	-5.4	-5.7	-5.9	-6.2	-6.5
Current account (including grants)	3.4	3.5	5.3	5.1	3.7	4.5	4.2	3.5	3.1	3.3
(In percent of GDP)	14.1	13.3	16.7	16.6	11.9	14.2	12.7	10.2	8.6	9.0
Gross official international reserves	2.7	3.2	4.0	3.9	3.0	2.9	3.2	3.3	2.4	2.6
(In months of goods and services imports)	4.5	5.1	6.6	6.6	4.8	4.5	4.8	4.8	3.5	3.6
	(In percent of GDP)									
Government debt										
Government gross debt	48.7	52.6	48.3	52.0	52.5	51.2	49.1	45.6	43.2	40.4
External debt-to-GDP ratio (in percent) 3/	21.8	25.0	23.5	25.4	29.2	30.5	31.2	29.8	26.7	24.4
External debt-service ratio (percent of exports)	5.4	4.1	2.1	2.7	3.4	4.5	5.4	5.6	8.9	3.3
Exchange rates										
US$/kina (end-period)	0.2850	0.2850	0.2840	0.2683	...	...	...	...	...	...
NEER (2005=100, fourth quarter)	90.7	91.2	100.3	101.1	...	...	...	...	...	...
REER (2005=100, fourth quarter)	122.6	125.1	135.5	134.7	...	...	...	...	...	...
Terms of trade (2010=100, end-period)	55.1	48.3	69.1	66.4	65.5	67.9	67.9	66.6	66.1	66.2
Nominal GDP (in billions of kina)	82.5	91.6	111.2	111.3	123.2	133.6	143.2	152.4	162.1	172.8
Non-resource nominal GDP (in billions of kina)	62.5	68.4	75.7	81.8	89.8	97.4	105.5	114.1	123.4	133.4

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.

INTERNATIONAL MONETARY FUND

PAPUA NEW GUINEA

June 17, 2024

SECOND REVIEWS UNDER EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, AND REQUEST FOR WAIVER OF APPLICABILITY OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

Background. On March 22, 2023, the IMF Executive Board approved 38-month Extended Credit Facility (ECF) and Extended Fund Facility (EFF) arrangements with Papua New Guinea to help address a protracted balance of payments need manifested in foreign exchange shortages and to support the authorities' reforms to address long-standing structural impediments to inclusive growth. The authorities have made progress in implementing reforms supported by the program, demonstrating continued commitment to program's objectives. The tense political and social environment, culminating in civil unrest in January 2024, has affected the parliamentary calendar and delayed the adoption of laws.

Program developments. Program performance has been satisfactory over the second review period. All end-December 2023 quantitative performance criteria (QPC) and indicative targets (IT) were met. The authorities reduced the fiscal deficit by 0.9 percentage points of GDP in 2023, slightly overperforming the program target. Foreign exchange reserves remained above the program floor. New external debt stayed well below the ceiling. In addition, the authorities have continued advancing their structural reform agenda. Four out of nine structural benchmarks (SBs) due were met, two were implemented with delay and two were partially implemented with delay. The missed SB on amendments to the Income Tax Act is proposed to be reset to end-December 2024, providing additional time to finalize the draft and prepare communication about the reforms. QPC and IT targets for the end-June 2025 test date are proposed. Four new SBs are proposed to enhance monetary policy operations and operationalize the Independent Commission Against Corruption.

Policy discussions. Policy discussions focused on i) the continuation of the fiscal consolidation strategy, while preserving space for critical social spending and law and order; ii) progress in the implementation of the authorities' Roadmap to alleviate FX shortages, in particular the new crawl-like exchange rate arrangement and further enhancements in monetary policy operations and liquidity management; and iii) the next concrete actions for the operationalization of the governance and anti-corruption framework.

Staff views. Given the satisfactory program performance and the authorities' sustained commitment to reforms, staff supports the request for completion of the second reviews under the EFF and ECF arrangements. The Letter of Intent and Memorandum of Economic and Financial Policies demonstrate program ownership and appropriate policies to reach the goals of the authorities' program.

Approved By
Thomas Helbling (APD) and Jarkko Turunen (SPR)

A staff team consisting of Tahsin Saadi Sedik (head), Fabien Gonguet, Yirbehogre Modeste Some (all APD), Asad Qureshi (MCM), Miguel Ricaurte (SPR) and Kaleb Tamiru Gulilat (FAD) visited Port Moresby during April 25–May 8, 2024. The mission met with Deputy Prime Minister John Rosso, Minister Assisting the Prime Minister Ian Ling-Stuckey, BPNG Governor Elizabeth Genia, Treasury Secretary Andrew Oaeke, senior government officials, development partners, and representatives of the private sector. The mission was assisted by Sohrab Rafiq, Resident Representative, and Sylvester Kilian, local economist. Nadine Dubost, Loa Anisi and Saraf Nawar provided administrative and research support for the preparation of the staff report.

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ANNEXES

APPENDIX

CONTEXT

1. The ECF and EFF arrangements aim to support Papua New Guinea's (PNG) reforms to address a protracted balance of payments need and long-standing structural impediments to inclusive growth. While ambitious, the program is focused on macro-critical conditionality, supported by capacity development and informed by PNG's Country Engagement Strategy, in line with the IMF's Strategy for Fragile and Conflict-Affected States.

2. The authorities have made progress in implementing program-supported reforms, demonstrating continued commitment to program's objectives. The government is pursuing an ambitious fiscal consolidation strategy to strengthen debt sustainability, achieving a deficit reduction of 0.9 percentage points of GDP in 2023. To alleviate foreign exchange (FX) shortages, the Bank of PNG (BPNG) has modified its exchange rate arrangement and enhanced the effectiveness of its monetary policy operations, in line with the reform roadmap (the 'Roadmap'). The governance of the BPNG has been strengthened through the appointment of a permanent Governor, a permanent Deputy Governor, and members for vacant Board positions. The Independent Commission Against Corruption (ICAC) continues to establish its operations.

3. The tense political and social environment, culminating in civil unrest in January 2024, poses significant challenges to ongoing major reforms and highlights persistent fragilities. On January 10, 2024, a technical glitch in the public payroll system resulted in a pay cut for civil servants. This triggered an initially peaceful protest and strike, which escalated into rioting and looting, primarily in Port Moresby. While order was quickly restored, the unrest led to a cabinet reshuffle. Motions of no confidence against the government were presented in Parliament in February and May. While these events have only marginally affected program performance so far, they have raised the political sensitivity of key reforms, impacted the parliamentary calendar and delayed the adoption of laws.

RECENT DEVELOPMENTS, OUTLOOK AND RISKS

4. Growth in 2023 is estimated to have softened to 2.9 percent. Growth in the non-resource sector remained resilient at 4.1 percent. However, the resource sector contracted by 0.4 percent due to lower-than-expected gold production, exacerbated by delays in the reopening of the Porgera mine.

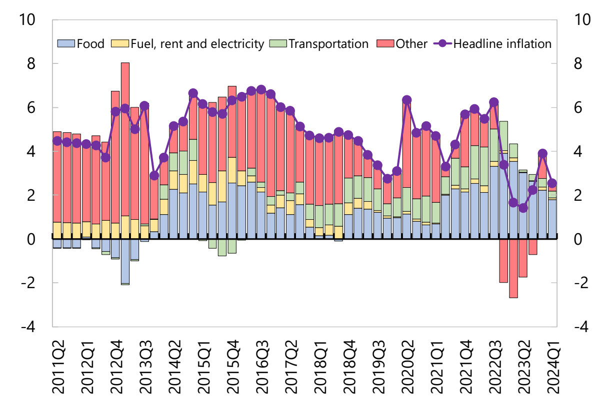
5. Inflation remained subdued. After falling to 1.4 percent in 2023Q2—primarily due to a one-off reduction in tuition fees and lower imported inflation—headline inflation began an upward trend, reaching 3.9 percent in 2023Q4; it then moderated to 2.5 percent in 2024Q1, largely driven by a decrease in betelnut prices. Core inflation stood at 4.0 percent in 2023Q4, remaining below the historical average.

6. The fiscal deficit in 2023 declined to 4.3 percent of GDP from 5.3 percent in 2022, slightly below program ceiling (MEFP ¶11). Total revenue (excluding grants) increased by 1.4

percentage points of GDP relative to 2022, mostly driven by tax revenue (1.0 pp of GDP). Relative to the first review projections, total revenue overperformed by 0.4 pp of GDP, with higher-than-expected collections of corporate mining and petroleum tax (MPT), due to higher LNG exports and lower capital deductions (0.8 pp of GDP), and of goods and services tax (0.5 pp of GDP), partly offset by lower-than-expected dividend payments from state-owned enterprises and entities (-0.5 pp of GDP) and other non-tax revenue (-0.4 pp of GDP). Total expenditure slightly increased by 0.2 pp of GDP relative to 2022, driven by an increase in transfers to other government units (1.2 pp of GDP), compensation of employees (0.4 pp of GDP) and interest payments (0.2 pp of GDP), largely offset by lower capital (-0.7 pp of GDP) and goods and services (-0.5 pp of GDP) spending. Total spending was 0.5 pp of GDP lower than projected at the first review, largely explained by lower grant receipts (Tables 2a and b).

Contribution to Headline Inflation

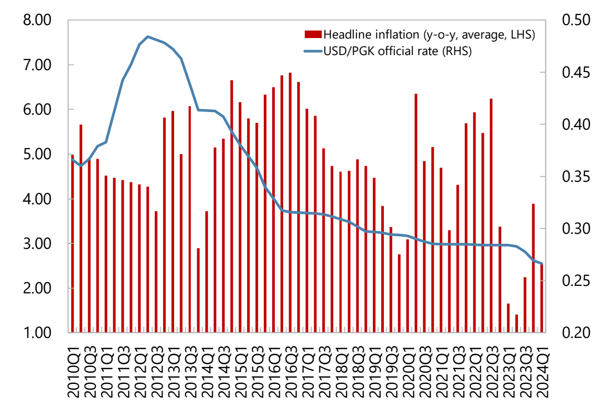
(In percentage points)



Source: IMF staff based on official data.

Inflation and Exchange Rate

(In percentage points (lhs) and US dollar per kina (rhs))



Source: IMF staff based on official data.

7. According to the latest Debt Sustainability Analysis (DSA, December 2023[1]) PNG's public and publicly guaranteed debt remains at high risk of debt distress. The elevated debt, compounded with the liquidity risk associated with the bullet payment due in 2028 on PNG's existing Eurobond and higher official bilateral and multilateral debt service payments between 2026 and 2029, leads to breaches of the debt service-to-revenue ratio threshold in the baseline scenario. While the capacity to service public debt obligations is robust, the authorities are considering various financing options ahead of the Eurobond repayment— including Debt Swaps, funding from international partners, and developing an action plan to accumulate needed financial resources, aimed at smoothing debt service and, potentially, further reducing the risks to debt sustainability (MEFP ¶25).

[1] See the Debt Sustainability Analysis (DSA) accompanying the Staff Report for the First Reviews Under the ECF and an Extended Arrangement Under the EFF (IMF Country Report No. 23/385). In line with the Guidance Note on the Bank-Fund Debt Sustainability Framework for Low-Income Countries (IMF, 2018), an updated DSA was not deemed necessary as staff assessed that changes in the macroeconomic framework relative to the previous DSA did not lead to a change in the sustainability assessment, this is not a program request, and the World Bank did not require an updated DSA for purposes of financing decisions. The required update for the 2024 calendar year is expected to be satisfied at the time of the next program review, planned for the fall of 2024.

8. Foreign reserves remained adequate, despite decreasing due to lower commodity prices and the BPNG's gradual clearing of the backlog of FX orders. The kina has been gradually depreciating against the US dollar (about 7 percent as of mid-May 2024). In line with the EBA-lite REER model, PNG's external position at the end of 2023 was moderately weaker than the level implied by medium-term fundamentals and desirable policies, with the REER overvalued by about 5 percent (Annex II). Alternative models using higher frequency data point to a somewhat larger overvaluation of the REER of around 7.6 percent as of end 2023.[2] FX shortages remain persistent, hampering imports and economic activity.[3]

9. Banks are reported to be well-capitalized, profitable, and with ample liquidity. As of end-2023, capital adequacy ratios are well above prudential standards, and bank profits remain comfortable. Private sector credit has picked up in 2023 and nonperforming loans, while higher than pre-pandemic, have decreased since their 2021 peak. The banking sector is however subject to concentration risks, with one bank carrying 70 percent of all banking assets, and the bank-sovereign nexus is high, given the large amounts of government cash deposits and government securities held in commercial banks.

10. The outlook remains positive. Real growth in 2024 is expected to strengthen to 4.6 percent, spurred by a rebound in the resource sector activity (5.3 percent) driven by the reopening of Porgera gold mine. Growth in the non-resource sector is expected to remain robust at 4.4 percent, as high-frequency indicators suggest a limited macroeconomic impact from the January 2024 social unrest (Annex III). Headline inflation is projected to rise in 2024, reaching 5.0 percent by end-2024, as the gradual depreciation of the exchange rate continues and the base effect of fiscal measures fades. Over the medium term, growth is projected to stabilize at around 3 percent, supported by the non-resource sector, and inflation is expected to converge to 4.5 percent.

11. Risks to the outlook are tilted to the downside (Annex I). Downside risks include weaker external demand, a drop in commodity prices, and natural disasters. Further political and social instability could undermine the implementation of the reforms and lead to a deterioration of the business climate. The ongoing dispute between the authorities and the main fuel importer about access to FX could lead to economy-wide fuel supply issues in the absence of resolution. PNG is highly vulnerable to the consequences of climate change and particularly exposed to severe climate-related disasters, calling for strong adaptation and disaster management policies. On the upside, risks include higher commodity prices, and the start of the construction of major resource projects, which are not yet in the baseline scenario; the investment decision for the most advanced project, Papua LNG, has been delayed to 2025. Inflation in 2024 could be lower, if the appreciation of the USD against other currencies offsets the Kina depreciation against the USD.

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[2] See Annex VI of the Staff Report for the First Reviews Under the ECF and an Extended Arrangement Under the EFF (IMF Country Report No. 23/385) for details on the alternative high frequency models.

[3] See Annex VII of the Staff Report for the 2022 Article IV Consultations (IMF Country Report No. 2022/305) for more details on the reasons for FX shortages.

PROGRAM PERFORMANCE

12. **Program performance has been satisfactory, with all end-December 2023 quantitative performance criteria (QPCs) and indicative targets (ITs) met** (Text Table 1 and Table 1 MEFP). At end-December 2023, fiscal deficit was slightly lower than the QPC ceiling, while non-resource tax revenue and priority spending were both well above their respective indicative floors. Net international reserves (NIR) remained above the QPC floor, while the BPNG's gross credit to government was below the QPC ceiling. PNG has not accumulated new external or domestic arrears, and new external debt remained significantly below the present value QPC. The authorities did not impose or intensify any exchange restrictions or introduce or modify any Multiple Currency Practices (MCPs) under the IMF's revised MCP policy.

Text Table 1. Papua New Guinea: QPCs and ITs, September 2023 – March 2024
(In millions kina, unless mentioned otherwise)

	2023						2024		
	September Indicative target			December Test date			March Indicative target		
	Approved	**Outcome**	Status	Approved	**Outcome**	Status	Approved	**Outcome**	Status
A. Quantitative performance criteria[1]									
Fiscal deficit of the government[2] (ceiling, cumulative from the beginning of the year)	4,239	**4,007**	met	4,935	**4,805**	met	1,586	**1,434**	met
Stock of net international reserves of the BPNG (floor, US$ millions)[3]	2,082	**2,707**	met	2,650	**3,292**	met	2,500	**2,830**	met
BPNG's gross credit to government (ceiling)	2,400	**2,026**	met	2,400	**1,929**	met	2,400	**2,024**	met
B. Continuous quantitative performance criteria (ceilings)[4]									
New external payment arrears of the government (ceiling, US$ millions)	0.0	**0**	met	0	**0**	met	0	**0**	met
Present value of new external debt contracted or guaranteed by the government[5] (ceiling, US$ millions)	1,405	**114**	met	943	**531**	met	1,072	**0**	met
C. Indicative Targets									
Non-resource tax revenue of the government (floor, cumulative from the beginning of the year)	9,167	**9,649**	met	12,741	**13,720**	met	2,935	**3,075**	met
New domestic payment arrears of the government (ceiling)[6]				0	**0**	met	0	**0**	met
Social and other priority spending (floor, cumulative from the beginning of the year)[7]	2,817	**3,699**	met	3,866	**4,787**	met	525	**1,735**	met
BPNG provision of foreign exchange to authorized FX dealers (floor, cumulative from the beginning of the year, US$ millions)	900	**1,073**	met	1,200	**1,574**	met			
Stock of unmet import-related FX payments in the orderbook (floor, US$ millions)							150	**46**	met

Sources: Papua New Guinea authorities and Fund staff estimates.
[1] Quantitative performance criteria listed under A. and indicative targets listed under C. are assessed as at the end of each reference month above.
[2] Central government until September 2023, Budgetary Central Government from December 2023.
[3] Starting end-December 2023, the SDR allocation is no longer subtracted in the calculation of NIR under the program, as per the TMU.
[4] Quantitative performance criteria listed under B. are effective continuously from program approval.
[5] Annual for 2023 and 2024.
[6] This indicative target is measured from December 2023 onwards.
[7] Comprises government spending on health, education and law and order (both capital and operating expenses).

13. **The structural reform agenda is progressing well, although legal changes have faced delays (Table 11).** Four out of nine structural benchmarks (SBs) due were met, two were implemented with delay, and two were partially implemented with delay. The SB regarding the amendments to the Income Tax Act (ITA) has not been implemented yet due to slower-than-expected drafting in late 2023. The deadline for this SB is proposed to be reset from end-December 2023 to end-December 2024, for the authorities to integrate additional expert inputs and to prepare communication about the reforms (MEFP ¶9 and ¶15).

POLICY DISCUSSIONS

A. Sustaining the Fiscal Consolidation Momentum

14. The authorities are committed to the fiscal adjustment efforts, in line with their medium-term fiscal repair strategy. In 2024, they plan to reduce the deficit by 0.4 pp of GDP to 3.9 percent, unchanged in nominal terms relative to the first review. Most of the adjustment is expected to be carried out through additional revenue and grants, with a projected moderate increase in non-resource tax revenue (0.1 pp of GDP) and a rebound of grants (0.8 pp of GDP); resource revenue is however expected to decrease (-0.5 pp of GDP), after high MPT levels in 2023. The increase in non-tax revenue underlying this adjustment target (0.3 pp of GDP) reflects full implementation of the Non-Tax Revenue Administration Act (0.2 pp of GDP) and a slight increase in dividends from the resource sector (0.1 pp of GDP). Should non-tax revenue collection overperform, driven for instance by the adoption of clearer dividend policies, the authorities intend to achieve a larger fiscal adjustment. Total expenditure is projected to remain broadly flat relative to 2023, as higher capital spending (0.7 pp of GDP), interest costs (0.2 pp of GDP) and, transfers to other local government units (0.2 pp of GDP) are offset by ongoing efforts to rein in compensation of employees (-0.6 pp of GDP) and to rationalize goods and services expenditure (-0.5 pp of GDP), in line with the authorities' strategy to contain recurrent spending (MEFP ¶17). The authorities have introduced a fiscal package (0.2 pp of GDP) to support businesses affected by social unrest, to be covered by contingency budget appropriations.

Text Table 2. Papua New Guinea: Fiscal Adjustment Plan, 2020-2026
(In percent of GDP)

	2020	2021	2022	2023		2024		2025	2026
						Proj.			
				Prog. First Rev.	*FBO*	*Prog. First Rev.*	*Latest*		
Revenue and Grants	**14.7**	**15.1**	**16.7**	**18.2**	**17.8**	**18.0**	**18.3**	**18.5**	**18.8**
Revenue	12.9	12.8	15.3	16.4	16.8	16.4	16.5	17.1	17.5
Resource revenue	0.9	1.1	3.9	3.6	3.9	3.1	3.4	3.7	3.7
Non-resource revenue	12.0	11.7	11.4	12.8	12.9	13.3	13.2	13.4	13.8
Non-resource tax revenue (% non-resource GDP)	15.4	13.9	16.4	15.8	16.8	16.7	17.1	17.4	17.8
Grants	1.7	2.3	1.3	1.8	1.0	1.7	1.8	1.4	1.3
Expenditure	**23.5**	**22.0**	**21.9**	**22.6**	**22.1**	**22.0**	**22.2**	**21.1**	**20.2**
Expense	19.3	18.0	17.9	18.5	18.8	18.2	18.2	17.1	16.3
Net acquisition of non-financial assets	4.3	4.0	4.0	4.1	3.3	3.8	4.0	4.0	3.9
Overall deficit	**8.9**	**6.8**	**5.3**	**4.4**	**4.3**	**3.9**	**3.9**	**2.6**	**1.4**
Primary deficit	6.2	4.4	2.9	1.9	1.8	1.5	1.3	0.2	-1.0
Non-resource net lending (+)/borrowing (-)	-9.8	-8.0	-9.2	-8.0	-8.2	-7.0	-7.3	-6.3	-5.1
Non-resource primary balance	-7.1	-5.5	-6.8	-5.5	-5.7	-4.5	-4.6	-3.9	-2.7
Fiscal adjustment		**-2.0**	**-1.6**	**-0.9**	**-0.9**	**-0.5**	**-0.4**	**-1.3**	**-1.2**
Revenue and Grants		*-0.5*	*-1.5*	*-1.5*	*-1.1*	*0.1*	*-0.5*	*-0.2*	*-0.3*
Expenditure		*-1.5*	*0.0*	*0.6*	*0.2*	*-0.6*	*0.1*	*-1.1*	*-0.9*

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

15. The authorities intend to stay the course on fiscal consolidation. Their medium-term fiscal framework envisions a fiscal consolidation path that entails a balanced budget by 2027 and surpluses, thereafter, largely underpinned by sustained domestic revenue mobilization efforts in line with the MTRS, continued expenditure rationalization, and a prudent external and domestic borrowing mix. If fully executed, the envisaged fiscal consolidation strategy would help strengthen debt sustainability by lowering public debt to 40.4 percent of GDP in 2029 from 52.0 percent in 2023.

16. Strengthening revenue collection remains key to a successful fiscal consolidation strategy (MEFP ¶9, ¶15). This relies on the implementation of the MTRS and substantial amendments to the Income Tax Act (ITA), with the support of IMF TA. The amendments would help streamline the tax system, including by removing tax provisions that are no longer relevant and closing tax loopholes - while making it easier to comply with the income tax system. While progress was achieved in drafting, more time is needed to finalize the draft and prepare communication about the reforms; the end-December 2023 deadline for their tabling to Parliament (SB) is now proposed to be ***reset to end-December 2024***. The IRC is finalizing an initial set of key performance indicators, with IMF support, to enhance revenue administration (ongoing SB by end-May 2024). To reinforce IRC's accountability, the authorities are preparing amendments to the IRC Act to create an oversight board, also to be supported by IMF TA; the end-October 2024 deadline for this ongoing SB is proposed to be ***reset to end-December 2024***, in line with the anticipated parliamentary calendar.

17. Efforts to improve expenditure efficiency are ongoing, with the aim to create additional space for social and capital spending.

- *Payroll management* (MEFP ¶19). The cleansing of payroll records (ongoing SB by end-August 2024) has been completed for national agencies in Port Moresby; the next phase will focus on agencies in the provinces, to be guided by a desktop analysis and an identification of capacity gaps in terms of financial and human resources. The cleansing exercise will pave the way for the upgrade of AscenderPay (payroll IT system) to enhance payroll management.

- *Expenditure management and controls.* To accelerate arrears clearance (remaining stock of unverified claims amounting to K3.2 billion as of end-April 2024), the authorities have appropriated K0.3 billion in the 2024 budget and are committed to allocate further budget resources in case of future revenue overperformance (MEFP ¶20). To help prevent the accumulation of new arrears, the authorities are working on improving commitment accounting and the management of multiyear contracts, based on recent IMF TA on expenditure controls (MEFP ¶21). They also plan to modernize IT systems to enable more automated, timely and effective monitoring of budget execution.

- *Cash management.* The authorities have significantly reduced the consolidated balance of trust accounts in 2023 and will close all remaining COVID-related trust accounts by September 2024 (MEFP ¶22). To modernize cash management practices and reduce excess government cash in the banking system, the authorities intend to formulate a strategy for the implementation of a Treasury Single Account (TSA) (MEFP ¶23).

18. The authorities remain committed to a prudent external borrowing policy to preserve debt sustainability. Prioritization of concessional loans and grants, alongside semi-concessional financing for critical projects, is essential to ensure that debt enters a downward trajectory. New external borrowing in 2023 significantly undershot the PV limit of US$ 943 million (QPC), reaching only US$ 531 million, partly due to delays in the signing of project financing last year. The authorities' updated borrowing plan for 2024 remains aligned with the limit on the PV of US$ 1,072 million for 2024. The limit will be reassessed as the year progresses, with the DSA acting as the critical anchor.

B. Making the Exchange Rate More Flexible and Enhancing Monetary Policy Effectiveness

19. To help address FX shortages, the authorities have transitioned to a crawl-like exchange rate arrangement, allowing for greater exchange rate flexibility.[4] As a step towards the gradual return to kina convertibility by the end of the program, and in line with the Roadmap (MEFP ¶26), the authorities have set the key parameters for a crawl-like exchange rate arrangement and kickstarted the implementation on January 3, 2024 (MEFP ¶27). As a result of the arrangement, the kina has continued to gradually depreciate; yet, given the appreciation of the USD against other currencies, the overvaluation of the kina has not diminished, thus requiring further adjustment. The authorities remain determined to resolve the misalignment of the exchange rate during the program and will continue to assess and address the overvaluation, in line with their scheduled biannual review of the crawl parameters. This strategy is to be complemented with government-wide efforts to increase net FX inflows to the economy.

20. To ensure consistency with the crawl-like arrangement and keep inflation expectations in check, the BPNG has started to tighten its monetary policy (MEFP ¶28). The Kina Facility Rate (KFR) was reduced from 3.0 percent to 2.5 percent in November 2023, and further to 2.0 percent in February 2024. In light of the need for further adjustment and to help keep inflation expectations anchored, the BPNG signaled a tightening stance for the April-September 2024 period, which staff deems appropriate. Subsequently in May 2024, it increased the KFR by 50 basis points to 2.5 percent, and the cash reserve requirement ratio by 100 basis points to 11 percent.

21. Critical vacancies in BPNG's senior management and Board have been filled, helping to strengthen BPNG's governance and modernization efforts (MEFP ¶31)**.** A permanent Governor of the BPNG was appointed in January 2024, followed by members for all vacant Board positions and a permanent Deputy Governor in April 2024. These appointments have ended a critical governance

[4] The *de facto* exchange rate arrangement was reclassified to crawl-like from stabilized, effective May 4, 2023. The *de jure* exchange rate arrangement is floating.

gap and should help reinforce BPNG's independence and ensure adequate steering of the Roadmap's implementation.

22. The BPNG remains committed to a gradual elimination of FX rationing measures towards transitioning to Kina convertibility, in line with the Roadmap (MEFP ¶29). The BPNG has been actively intervening in the market to help address essential orders and gradually reduce backlog of import of goods orders. Yet, the economy still faces a persistent mismatch between FX supply and demand. Given the pent-up FX demand and overshooting risks, essential FX orders continue to be prioritized, especially as some overvaluation of the kina remains. An indicative ceiling on the stock of unmet import-related orders in the orderbook is implemented to ensure that essential orders are swiftly addressed. To safeguard FX reserves, the NIR floor (QPC) still applies, unchanged relative to the first review.

23. The BPNG has initiated key reforms of its monetary operations to further enhance liquidity management and improve monetary transmission (MEFP ¶30). The BPNG modified its open market operations by starting to conduct fixed-rate full-allotment auctions (FRFA) in August 2023, and aligned the rate of FRFA with the KFR in November 2023. This helped mop up on average half of the excess liquidity, though the level of precautionary reserves stays elevated. To help reduce excess liquidity and alleviate the banks' need for higher precautionary reserves, the authorities are now committed to (i) implementing an interest rate corridor centered around the KFR and bounded by standing overnight facilities priced at ±150 bps around the KFR, and (ii) modifying the reserve requirement framework by introducing partial reserve averaging and extending the lagged maintenance period (***both new proposed SBs for end-August 2024***).

24. Amendments to the Central Banking Act (CBA) to tackle vulnerabilities in the BPNG's mandate, governance and autonomy have been submitted to parliament in June 2024 (MEFP ¶32). The most significant improvements include: (i) a clearer ranking of the central bank objectives, with price stability as the BPNG's primary objective, and a clearer separation of objectives and functions; (ii) the establishment of a Monetary Policy Committee in charge of monetary policy formulation, ensuring its separation from the oversight role of the Board; (iii) limits on the provision of temporary advances to the government. Other improvements include the introduction of lender of last resort and emergency liquidity assistance frameworks. However, the amendments still have gaps in areas including governance, personal and financial autonomy and accountability of the BPNG, which had been identified by the IMF safeguards assessment. The authorities are committed to further reforms to tackle outstanding recommendations of the IMF safeguards assessment.

C. Turning Good Governance Commitments into Action

25. The authorities are continuing their efforts to strengthen governance and anti-corruption frameworks and to enhance fiscal and financial transparency.

- *Anti-corruption framework* (MEFP ¶35). Since the appointment of its Commissioner and two Deputy Commissioners, significant progress has been achieved in operationalizing the ICAC, including through the adoption of implementing regulations to the ICAC law, procedure manuals and guidelines, the move to more secure IT solutions, and the hiring and training of new staff, supported by an increased operational budget. To align with best governance standards, the appointment of ICAC's oversight committee, in application of the ICAC law, is ***proposed as a new SB by end-September 2024***. In addition, to enhance cooperation and information flows among anti-corruption bodies, the finalization and signature of at least four draft memoranda of understanding between ICAC and five other key government agencies[5] involved in the fight against corruption is ***proposed as a new SB by end-December 2024***.

- *AML/CFT* (MEFP ¶34). The authorities are continuing to enhance their AML/CFT frameworks, in line with the AML/CFT Strategic Plan 2023-27 published in September 2023. They are also expecting the Asia/Pacific Group on Money Laundering (APG) mutual evaluation report against the FATF standards to be adopted in July 2024 and have kickstarted efforts to implement its recommendations.

- *Fiscal and financial transparency*. Information on all major COVID-19 related contracts procured under emergency procedures has been published in March 2024, although information on beneficial ownership is not available (MEFP ¶36). Efforts are ongoing to improve consistency of statistics, especially for the external sector, and to increase the frequency of in-year fiscal reporting (MEFP ¶37). The authorities are also committed to reinforcing the reliability of financial information for state-owned enterprises, and to resuming the publication of financial statements of state entities in the resource sector (MEFP ¶38).

PROGRAM MODALITIES

26. Program monitoring and conditionality. Program performance will continue to be monitored through semi-annual program reviews based on QPCs and ITs (MEFP Table 1), and SBs (Table 11). Under the EFF arrangement, waiver of applicability for the end-June 2024 performance criteria is proposed based on non-availability of final data.[6] New targets for QPCs and ITs at end-June 2025 and indicative targets at end-March 2025 are proposed. An adjustor on the NIR floor (QPC) conditional on external financing disbursements is proposed to be introduced (TMU ¶16). The deadlines for the SB on amendments to the ITA and to the IRC Act are both proposed to be reset to end-December 2024 (from respectively end-December 2023 and end-October 2024). Four new SBs are also proposed, adding to the five already ongoing.

27. Burden sharing and financing assurances. The program is fully financed, with firm commitments for the upcoming 12 months and good prospects for the remainder of the

[5] The BPNG's Financial Analysis and Supervision Unit (FASU), the Police, the Ombudsman's Office, the Auditor General's Office (AGO) and the Public Prosecutor's Office.

[6] Reviews of performance under an arrangement in the Fund's GRA are based on the most recent performance criteria (PCs). For the end-June 2024 QPCs, no final data are available, prompting the request for a waiver of applicability of those PCs under the EFF arrangement for which there is not deterministic evidence of not meeting the targets. The second review under the ECF arrangement, a facility under the PRGT, remains based on the end-December 2023 PCs.

arrangement. Assistance from the Fund should continue to play a catalytic financing role with other multilateral and bilateral partners. Fund burden sharing is expected to average 34.5 percent across the program.

28. Capacity to repay the Fund. PNG's capacity to repay the Fund is assessed to be adequate, although program risks are elevated amid high global and domestic uncertainty. Fund credit outstanding, including projected purchases under the ECF/EFF arrangement, will peak in 2026 at 3.5 percent of GDP, equivalent to around 7.3 percent of exports of goods and services and 36.7 percent of gross international reserves. Total debt service to the Fund will peak at 1.2 percent of exports of goods and services and 7.5 percent of gross international reserves in 2030 (Table 8). Downside risks include weaker external demand for PNG's exports, volatility in commodity prices and natural disasters. Risks to capacity to repay are partially mitigated by a commitment to fiscal sustainability and macroeconomic stability in the medium-term. In addition, macroeconomic projections are built on conservative assumptions regarding prospects of the new resource projects, which are not part of the baseline projections.

29. Safeguards assessment. Since the completion of the update safeguards assessment in October 2023, governance gaps at the BPNG have been eliminated (MEFP ¶31), thus addressing one of the assessment's priority recommendations. CBA amendments have been submitted to Parliament, aiming to address some of the key vulnerabilities in the autonomy of the central bank (MEFP ¶32). The FY 2022 financial statement has been published, albeit with delay. The agreement with the Treasury to begin servicing the 2021 SDR allocation and correct the accounting treatment remains outstanding. Staff will continue to engage with the central bank on these outstanding safeguards recommendations.

30. Program risks and mitigating measures. Risks to the program arise from the authorities' limited institutional capacity and further slowdown in reform implementation in a volatile socio-economic and political environment. To address these risks, conditionality is streamlined, focused, macro-critical, and informed by PNG's CES. Regular program monitoring meetings, in-country via the Resident Representative Office as well as virtual, with both the Treasury and the BPNG, have taken place to ensure focus on program targets and commitments.

31. Capacity development (CD). Ongoing and planned IMF CD activities are closely integrated to the program. In 2023, IMF CD has hence supported the preparation of the Roadmap (MCM), the preparation of a new MTRS and the revision of the ITA (FAD), and FSI compilation (STA). This has been complemented by support on revenue administration (PFTAC), macro-fiscal forecasting (ICD/PFTAC), and BOP data (CDOT/STA). A public financial management TA mission (FAD) on expenditure controls and cash management took place in March 2024. A Financial Sector Stability Review will take place in July 2024. A Climate Policy Diagnostic mission and a Climate Public Investment Management Assessment mission are scheduled for July-August 2024. Fund TA is complemented by (and coordinated with) other partners, including anti-corruption framework (UN and EU), governance of SOEs (ADB), and national accounts and AML/CFT (Australia).

32. Data gaps. While data reporting has been strengthened, in part to support program monitoring, shortcomings in National Accounts compilation, particularly the production of CPI statistics, still need to be addressed. Authorities are planning to initiate an inter-agency working group on external sector statistics (ongoing SB for end-June 2024) and continue to work closely with PFTAC on the enhancement and expansion of external sector statistics (MEFP ¶37).

STAFF APPRAISAL

33. The economic outlook is positive, notwithstanding downside risks. In 2024, non-resource growth is expected to remain resilient, while resource growth should rebound with the reopening of Porgera gold mine. Inflation is expected to rise to its historical average by end-2024. Downside risks are significant, with exports, fiscal revenues and FX reserves vulnerable to commodity price shocks; the start of new resource projects, a major upside risk for growth, is facing delays.

34. The authorities have demonstrated continued commitment to reforms since the start of the program, with the aim to tackle long-term impediments to growth and poverty reduction. Program performance has been satisfactory, with the authorities meeting all QPCs and fully or partially implementing all but one SB, despite recent socio-political uncertainty. The authorities have been proactive in requesting technical assistance from the IMF to help overcome capacity constraints in reform implementation, including to support the implementation of the two SBs for which a reset deadline is proposed. Program objectives are aligned with the authorities' Poverty Reduction and Growth Strategy (Annex IV).

35. Fiscal consolidation efforts should continue in order to durably reduce the deficit and address debt sustainability risks. In the past three years, the authorities have made significant headway in their deficit reduction strategy. The 2023 deficit-to-GDP ratio decreased to its pre-pandemic level at 4.3 percent of GDP, about half of the 2020 ratio. Given the high uncertainty on resource revenue going forward, fiscal consolidation efforts should rely both on domestic revenue mobilization, especially for non-resource tax revenue, in line with the new MTRS, and on expenditure rationalization and efficiency gains, including for payroll spending. Staff supports the authorities' intent to accelerate the implementation of the MTRS, including in the 2025 Budget. Legal amendments to the ITA and IRC Act are critical steps in simplifying tax policy and modernizing tax administration. In addition, reforms are needed to reinforce expenditure controls, improve expenditure monitoring, and implement a treasury single account. The authorities' cautious approach to fiscal management, relying on conservative assumptions and clear contingency plans, will also be key in ensuring a successful consolidation.

36. The ongoing tightening of the monetary policy stance is appropriate, given the expected inflationary pressures from the exchange rate adjustment needed to achieve kina convertibility. The BPNG has been gradually depreciating the kina against the USD in line with the crawl-like arrangement. However, the recent appreciation of the USD against other currencies warrants more adjustment to fully tackle the misalignment, which is expected to create inflationary pressures. In that context, a monetary tightening is appropriate to continue keeping inflation in check and should be commensurate to the needed adjustment. Reducing interest rates differentials would also help provide incentives for capital to stay in PNG and contribute to easing FX pressures. Thanks to the recent and upcoming enhancements to monetary operations, the KFR will have a larger impact on the setting of domestic interest rates. This increases the importance of the KFR, which remains much lower than before the COVID-19 pandemic level and very accommodative. When kina convertibility returns, decisions on the KFR will need to be more sensitive to changes in the monetary policy stance for the reference currency.

37. The BPNG should sustain its reform efforts to modernize its operations, in line with the Roadmap. Building on the move to the fixed rate full allotment auction and the alignment of the rate of issuance of 7-day central bank bills on the KFR, the adoption of an interest rate corridor and of reserve averaging will provide commercial banks with more flexibility to optimize their liquidity. This should hence help reduce excess liquidity in the economy. The steering and implementation of these reforms, as well as of the rest of the Roadmap – which includes the gradual easing of exchange restrictions, support to the development of the interbank market, and the elaboration of a framework for emergency liquidity assistance – will benefit from the recent appointments of the BPNG's senior management and Board, and from the amendments to the CBA, which contribute to reinforcing the autonomy and accountability of the central bank.

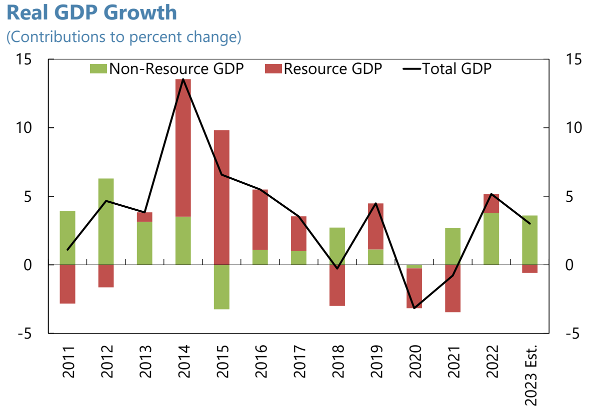
38. The efforts to reinforce the effectiveness of the anti-corruption, governance and AML/CFT frameworks should continue. The ICAC has achieved substantial progress in its path to becoming fully operational. Reform efforts should now be directed at ensuring that the ICAC can effectively access information and take action as needed. The authorities should start implementing the recommendations of the mutual evaluation rapidly to improve the effectiveness of their AML/CFT frameworks. The publication of recent financial statements of the state-owned petroleum and mining companies would be critical in strengthening financial transparency and accountability in the resource sector. The authorities should continue to make progress in strengthening transparency around procurement and in collecting beneficial ownership information.

39. Given PNG's high vulnerability to climate change, adaptation and disaster management policies are critical to the success of the authorities' development strategy. To help support their climate policy agenda, the authorities have requested access to the Resilience and Sustainability Facility (RSF). Staff will examine the request in the coming months, informed by upcoming climate diagnostics.

40. Given the satisfactory program performance and the authorities' sustained commitment to reforms, staff supports the completion of the second review under the EFF and ECF arrangements and request for waiver of applicability for the end-June 2024 performance criteria under the EFF arrangement. The Letter of Intent (Appendix I) and Memorandum of Economic and Financial Policies (Attachment I) demonstrate program ownership and appropriate policies to reach the goals of the authorities' program.

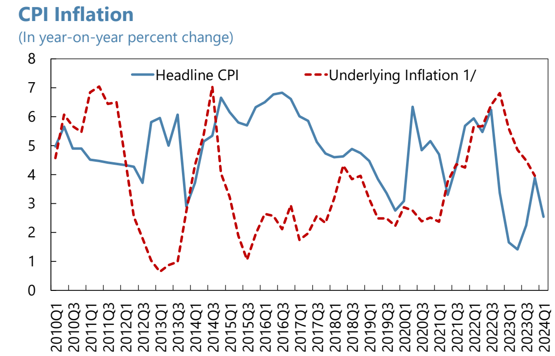
Figure 1. Papua New Guinea: Real and External Sector Developments

Real GDP recovered since the pandemic, led by the non-resource sector.



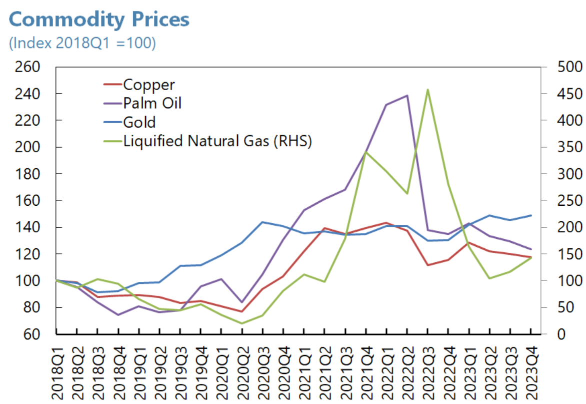
Source: IMF Staff Estimates

Headline inflation decreased in 2024Q1 after being on an upward trend since 2023Q2 while underlying inflation has been declining since 2022Q4.



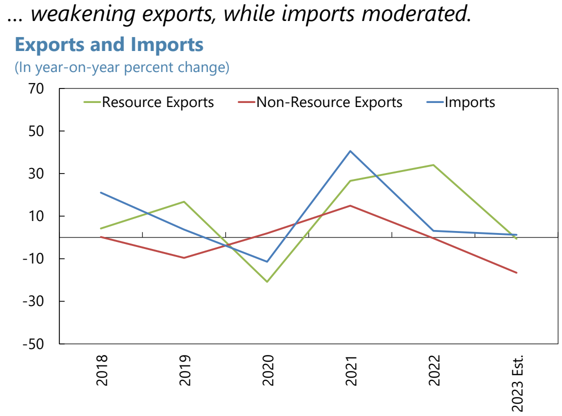
Sources: BPNG and IMF staff estimates
1/ Trimmed Mean by BPNG

Commodity prices declined from their 2022 peaks...



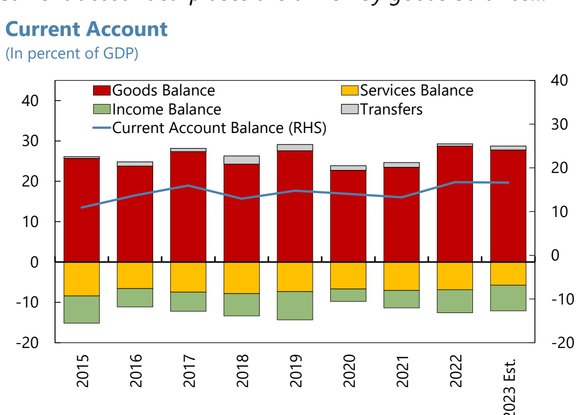
Source: IMF Primary Commodity Price System

... weakening exports, while imports moderated.



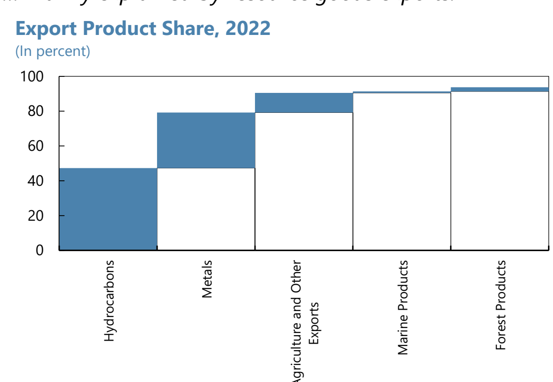
Source: IMF Staff Estimates

Current account surpluses are driven by goods balance...



Source: BPNG, IMF Staff Calculations.

... mainly explained by resource goods exports.

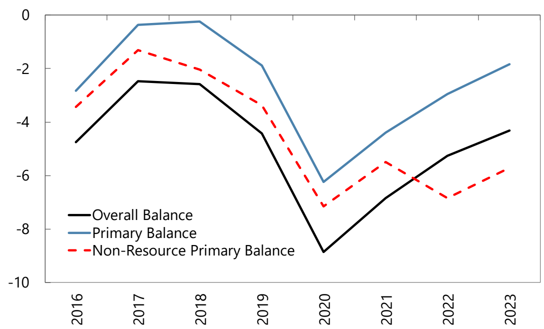


Source: BPNG

Figure 2. Papua New Guinea: Fiscal Developments

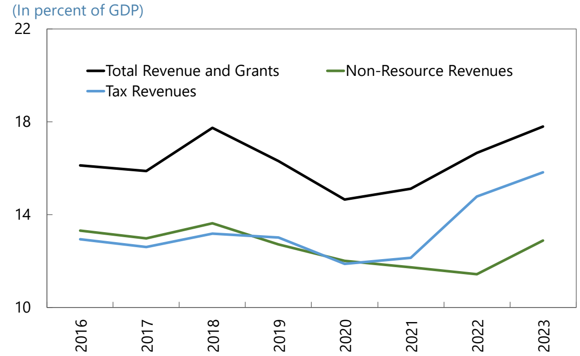
Fiscal consolidation continued in 2023...

Fiscal Balance
(In percent of GDP)



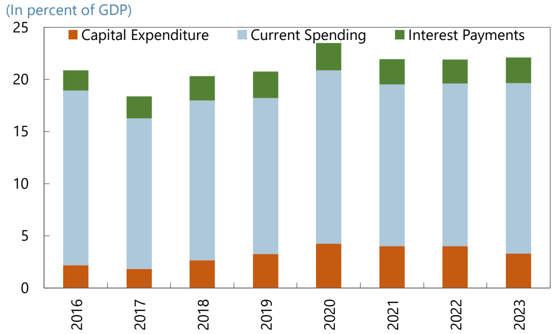
...driven by a steady performance in tax revenues.

Central Government Revenue
(In percent of GDP)



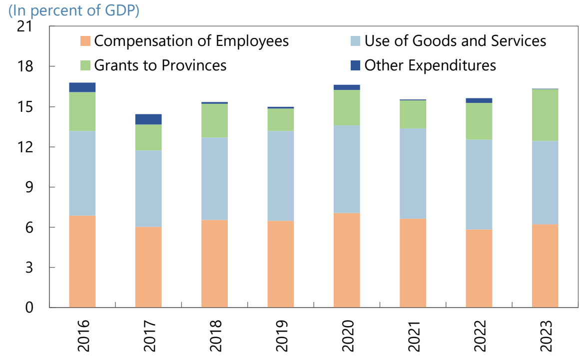
Current spending continues to take up the bulk of government spending...

Central Government Expenditure
(In percent of GDP)



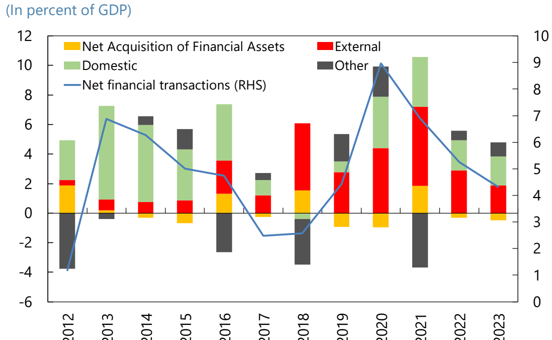
...driven by employee compensation and use of goods and services, although grants to provinces significantly increased.

Recurrent Government Expenditure
(In percent of GDP)



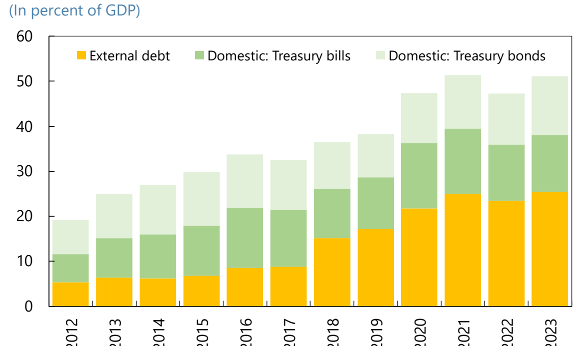
External financing sources remain significant.

Financing
(In percent of GDP)



Public debt has broadly stabilized in recent years but remains above pre-pandemic levels.

Public Debt
(In percent of GDP)

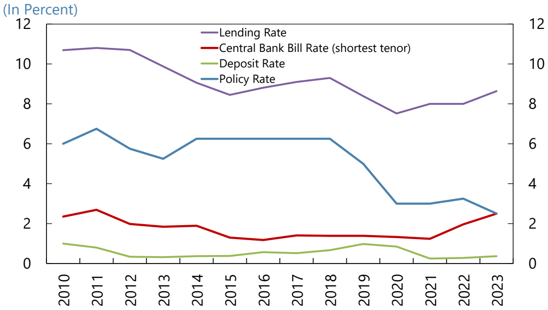


Sources: Country authorities; and IMF staff estimates and projections.

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

The policy rate remains lower than before the pandemic.

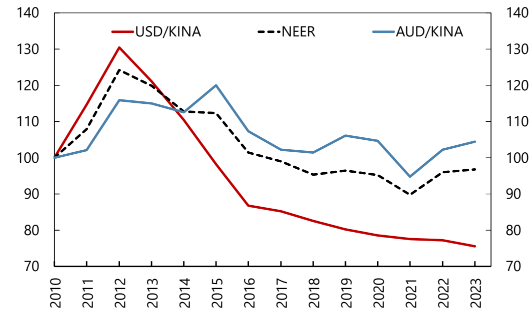
Interest Rates
(In Percent)



Note: Updated as of Dec 2023.
Shortest Central Bank Bill tenor was 28 days up to 2022, and 7 days from 2023.
Sources: IFS and BPNG.

The kina mildly depreciated against the US$ in 2023.

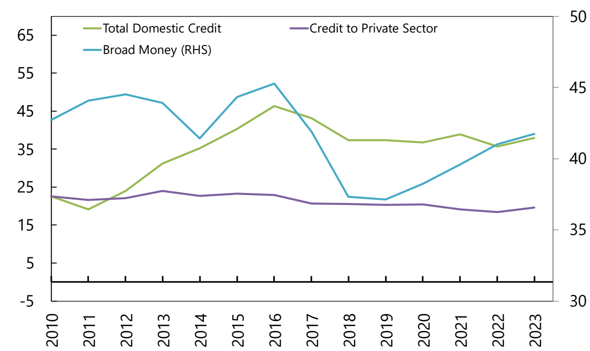
Exchange Rate
(Index; 2010=100)



Note: Period averages.
Sources: IFS and IMF staff estimates.

Credit to the private sector relative to non-resource GDP has been broadly unchanged over the past six years…

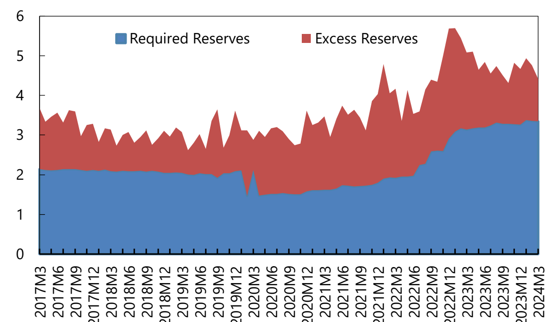
Money and Credit
(In Percent of Non-Resource GDP)



Sources: BPNG and IMF staff estimates.

…while the move to a fixed rate full allotment auction in August 2023 for central bank bills has contributed to reducing excess liquidity in the banking system.

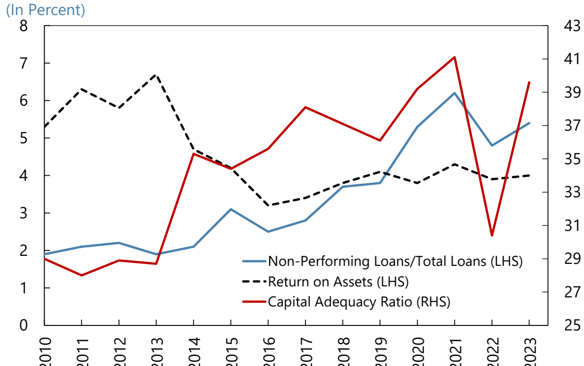
Liquidity
(Billions of Kina)



Source: BPNG.

NPLs are higher than before the pandemic, though the banks are profitable and well-capitalized.

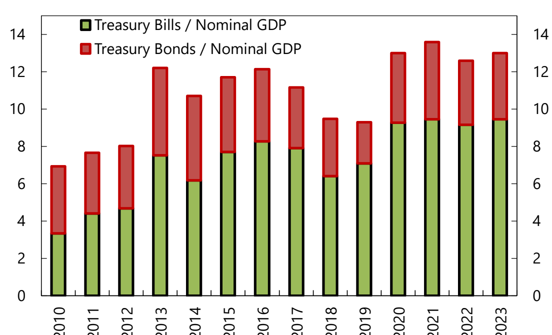
Financial Stability
(In Percent)



Sources: BPNG and IMF staff estimates.

Commercial banks holdings of government paper were broadly unchanged.

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



Sources: BPNG and IMF staff estimates.

Table 1. Papua New Guinea: Selected Economic and Financial Indicators, 2020-2029

Nominal GDP (2021):	US$26.3 billion 1/
Population (2021):	11.8 million
GDP per capita (2021):	US$2,217
Quota:	SDR 263.2 million

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
		Est.	Est.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
					(Percentage change)					
Real sector										
Real GDP growth	-3.2	-0.8	5.2	2.9	4.6	3.7	3.4	3.0	3.1	3.1
Resource 2/	-9.2	-11.6	5.1	-0.4	5.3	2.1	1.4	0.1	0.2	0.2
Non-resource	-0.4	3.8	5.2	4.1	4.4	4.2	4.1	4.0	4.0	4.0
Mining and quarrying (percent of GDP)	10.2	8.2	8.2	8.7	9.5	10.2	10.5	10.3	10.1	9.9
Oil and gas extraction (percent of GDP)	14.1	17.1	23.7	17.8	17.5	16.9	15.8	14.8	13.8	12.9
CPI (annual average)	4.9	4.5	5.3	2.3	4.4	4.8	4.8	4.6	4.5	4.5
CPI (end-period)	5.1	5.7	3.4	3.9	5.0	4.8	4.8	4.6	4.5	4.5
					(In percent of GDP)					
Central government operations										
Revenue and grants	14.7	15.1	16.7	17.8	18.3	18.5	18.8	19.3	19.4	19.9
Of which: Resource revenue	0.9	1.1	3.9	3.9	3.4	3.7	3.7	3.7	3.8	4.0
Expenditure and net lending	23.5	22.0	21.9	22.1	22.2	21.1	20.2	19.3	19.3	19.6
Net lending(+)/borrowing(-)	-8.9	-6.8	-5.3	-4.3	-3.9	-2.6	-1.4	0.0	0.2	0.4
Non-resource net lending(+)/borrowing(-)	-9.8	-8.0	-9.2	-8.2	-7.3	-6.3	-5.1	-3.7	-3.6	-3.6
					(Percentage change)					
Money and credit										
Domestic credit	2.3	15.9	1.5	14.9	11.1	9.6	4.1	5.1	16.8	5.3
Credit to the private sector	4.2	2.5	6.9	14.9	9.8	9.0	8.8	8.6	8.6	8.5
Broad money	7.0	13.4	14.7	9.9	-0.2	6.0	7.5	8.1	9.1	9.2
					(In billions of U.S. dollars)					
Balance of payments										
Exports, f.o.b.	9.1	11.3	14.4	13.9	14.4	15.3	15.8	15.9	16.3	16.9
Imports, c.i.f.	-3.7	-5.1	-5.3	-5.4	-5.1	-5.4	-5.7	-5.9	-6.2	-6.5
Current account (including grants)	3.4	3.5	5.3	5.1	3.7	4.5	4.2	3.5	3.1	3.3
(In percent of GDP)	14.1	13.3	16.7	16.6	11.9	14.2	12.7	10.2	8.6	9.0
Gross official international reserves	2.7	3.2	4.0	3.9	3.0	2.9	3.2	3.3	2.4	2.6
(In months of goods and services imports)	4.5	5.1	6.6	6.6	4.8	4.5	4.8	4.8	3.5	3.6
					(In percent of GDP)					
Government debt										
Government gross debt	48.7	52.6	48.3	52.0	52.5	51.2	49.1	45.6	43.2	40.4
External debt-to-GDP ratio (in percent) 3/	21.8	25.0	23.5	25.4	29.2	30.5	31.2	29.8	26.7	24.4
External debt-service ratio (percent of exports)	5.4	4.1	2.1	2.7	3.4	4.5	5.4	5.6	8.9	3.3
Memo Items										
US$/kina (end-period)	0.2850	0.2850	0.2840	0.2683	…	…	…	…	…	…
NEER (2005=100, fourth quarter)	90.7	91.2	100.3	101.1	…	…	…	…	…	…
REER (2005=100, fourth quarter)	122.6	125.1	135.5	134.7	…	…	…	…	…	…
Terms of trade (2010=100, end-period)	55.1	48.3	69.1	66.4	65.5	67.9	67.9	66.6	66.1	66.2
Nominal GDP (in billions of kina)	82.5	91.6	111.2	111.3	123.2	133.6	143.2	152.4	162.1	172.8
Non-resource nominal GDP (in billions of kina)	62.5	68.4	75.7	81.8	89.8	97.4	105.5	114.1	123.4	133.4

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, 2020-2029
(In millions of Kina)

	2020	2021	2022	2023	2024		2025	2026	2027	2028	2029
					Prog. First Rev.	Revised	Proj.				
Revenue and Grants	**12,093**	**13,860**	**18,538**	**19,810**	**22,168**	**22,567**	**24,692**	**26,919**	**29,405**	**31,490**	**34,476**
Revenue	10,668	11,772	17,066	18,651	20,093	20,362	22,867	25,044	27,330	29,374	32,317
Taxes	9,802	11,129	16,454	17,627	17,850	18,874	21,198	23,240	25,241	26,999	29,506
Taxes on income, profits, and capital gains	5,669	6,356	11,253	11,730	11,721	12,267	13,788	15,003	16,230	17,531	18,570
of which: Personal income tax	3,517	3,468	3,652	4,150	4,621	4,399	4,850	5,369	5,894	6,371	6,656
of which: Company tax	1,554	1,690	2,757	3,032	3,696	3,605	3,927	4,307	4,891	5,415	5,637
Taxes on payroll and workforce	0	1	1	2	1	1	1	1	1	2	2
Taxes on goods and services	3,373	3,994	4,294	5,227	5,149	5,816	6,518	7,280	7,990	8,379	9,776
of which: GST	2,079	2,457	2,475	3,599	3,236	3,898	4,400	4,924	5,466	5,823	7,502
Taxes on international trade and transactions	760	779	906	668	979	790	890	956	1,020	1,088	1,159
Other Revenue	866	643	613	1,024	2,243	1,488	1,669	1,805	2,090	2,375	2,811
Resource revenue 1/	752	1,016	4,336	4,309	3,800	4,150	4,956	5,314	5,626	6,121	6,992
Mining and Petroleum Taxes	183	635	4,036	3,907	2,600	3,550	4,256	4,514	4,576	4,821	5,292
Mining and Petroleum and Gas Dividends	569	381	300	403	1,200	600	700	800	1,050	1,300	1,700
Non-resource revenue	9,916	10,757	12,730	14,342	16,293	16,212	17,911	19,730	21,704	23,253	25,325
Non-resource tax revenue	9,619	10,494	12,418	13,720	15,250	15,324	16,942	18,726	20,665	22,178	24,215
Grants	1,425	2,088	1,472	1,159	2,075	2,205	1,825	1,875	2,075	2,116	2,159
Expenditure	**19,398**	**20,131**	**24,390**	**24,615**	**26,979**	**27,378**	**28,208**	**28,945**	**29,360**	**31,226**	**33,788**
Expense	15,887	16,480	19,940	20,966	22,333	22,417	22,853	23,336	23,564	24,091	25,488
Compensation of employees	5,832	6,094	6,490	6,940	7,562	6,934	7,195	7,494	7,600	8,085	8,619
of which: Clearance of retirement arrears				196	200	201	100				
Use of goods and services	5,388	6,161	7,467	6,906	7,999	7,073	7,425	7,467	7,454	8,217	8,760
Interest	2,160	2,249	2,573	2,761	3,022	3,269	3,300	3,511	3,739	2,712	2,698
Grants 2/	2,190	1,915	3,018	4,290	3,510	5,033	4,691	4,557	4,394	4,675	4,983
Social benefits 3/	218	0	0	0	165	100	159	220	284	303	323
Other expenses	99	61	393	69	76	8	82	88	93	99	106
Net acquisition of non-financial assets	3,511	3,650	4,450	3,649	4,645	4,961	5,355	5,609	5,795	7,135	8,299
Gross operating balance	-3,794	-2,620	-1,402	-1,156	-165	150	1,840	3,583	5,841	7,399	8,987
Net lending (+)/borrowing (-)	**-7,305**	**-6,270**	**-5,852**	**-4,805**	**-4,810**	**-4,810**	**-3,516**	**-2,026**	**46**	**264**	**688**
Primary balance	-5,145	-4,021	-3,279	-2,043	-1,788	-1,541	-215	1,485	3,785	2,976	3,386
Non-resource net lending (+)/borrowing (-)	-8,056	-7,286	-10,188	-9,114	-8,610	-8,960	-8,472	-7,340	-5,580	-5,856	-6,303
Non-resource primary balance	-5,896	-5,037	-7,615	-6,353	-5,588	-5,692	-5,172	-3,829	-1,841	-3,145	-3,606
Net financial transactions 4/	**7,399**	**6,324**	**5,852**	**4,805**	**4,810**	**4,810**	**3,516**	**2,026**	**-46**	**-264**	**-688**
Net acquisition of financial assets	-803	1,685	-356	-541	0	0	0	0	0	0	0
Net incurrence of financial liabilities	6,596	8,009	5,496	4,264	4,810	4,810	3,516	2,026	-46	-264	-688
Net domestic	2,882	3,096	2,277	2,176	874	408	-185	-689	305	5,501	1,665
Treasury bills	1,711	1,395	493	350	420	196	-87	-317	137	2,476	749
Treasury bonds	1,266	1,601	1,750	1,945	455	212	-98	-372	168	3,026	916
Other accounts payable	0	0	0	0	0	0	0	0	0	0	0
Net external	3,619	4,913	3,220	2,088	3,936	4,402	3,700	2,715	-350	-5,766	-2,353
Debt securities	0	0	0	0	0	0	0	0	0	-2,275	0
IMF SDR allocation		1,244	0								
Loans	3,619	4,913	3,220	2,088	3,936	4,402	3,700	2,715	-350	-3,491	-2,353
of which: net Fund financing	1,276	0	0	632	988	988	1,207	395	-312	-321	-331
Rapid Credit Facility	*1,276*	*0*	*0*	*0*	*0*	*0*	*-147*	*-303*	*-312*	*-321*	*-331*
ECF/EFF program				*632*	*988*	*988*	*1,354*	*698*			
Extended Fund Facility				*421*	*659*	*659*	*902*	*465*			
Extended Credit Facility				*211*	*329*	*329*	*451*	*233*			
Gross government debt	**40,168**	**48,173**	**53,680**	**57,944**	**64,168**	**64,633**	**68,380**	**70,356**	**69,552**	**69,966**	**69,791**
Domestic debt	22,216	25,258	27,534	29,710	27,630	28,616	27,596	25,635	24,138	26,733	27,655
Treasury bills	11,902	13,297	13,789	14,139	14,930	14,335	14,843	14,526	14,663	17,138	17,888
Treasury bonds	9,233	10,833	12,583	14,528	11,538	13,238	11,592	9,947	8,314	8,433	8,606
Loans	1,081	1,128	1,162	1,042	1,162	1,042	1,162	1,162	1,162	1,162	1,162
External debt	17,953	22,916	26,146	28,233	36,538	36,017	40,784	44,721	45,414	43,233	42,136
Debt securities	1,701	1,750	1,761	1,761	1,761	1,761	1,928	1,984	2,030	-184	2,153
Loans	16,252	21,166	24,385	26,473	34,777	34,256	38,856	42,738	43,384	43,417	39,983
Memorandum items:											
Contingent liabilities 5/	2,431	2,431	2,431	2,381	2,381	2,381	2,331	2,281	2,231	2,181	2,131
Future unfunded superannuation liabilities	2,431	2,431	2,431	2,381	2,381	2,381	2,331	2,281	2,231	2,181	2,131
SOE borrowing	0	0	0	0	0	0	0	0	0	0	0
Contingent liabilities, percentage of GDP	2.9	2.7	2.2	2.1	1.9	1.9	1.7	1.6	1.5	1.3	1.2

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

1/ Does not include projected revenues from new mining projects where the investment decision has not yet been reached.

2/ Grants include spending on wages and salaries, goods and services, and capital expenditure executed by provincial and local governments.

3/ Refers to direct social assistance. For the program, the indicative target on social spending is more expansive, covering current and capital spending in the identified sectors (see Technical Memorandum of Understanding accompanying the program request).

4/ Discrepancies between the overall balance and financing may 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 data weaknesses.

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

Table 2b. Papua New Guinea: Summary Operations of the Central Government, 2020-2029
(In percent of GDP)

	2020	2021	2022	2023	2024		2025	2026	2027	2028	2029
					Prg. First Rev.	Revised	Proj.				
Revenue and Grants	**14.7**	**15.1**	**16.7**	**17.8**	**18.0**	**18.3**	**18.5**	**18.8**	**19.3**	**19.4**	**19.9**
Revenue	12.9	12.8	15.3	16.8	16.4	16.5	17.1	17.5	17.9	18.1	18.7
Taxes	11.9	12.1	14.8	15.8	14.5	15.3	15.9	16.2	16.6	16.7	17.1
Taxes on income, profits, and capital gains	6.9	6.9	10.1	10.5	9.5	10.0	10.3	10.5	10.7	10.8	10.7
of which: Personal income tax	4.3	3.8	3.3	3.7	3.8	3.6	3.6	3.7	3.9	3.9	3.9
of which: Company tax	1.9	1.8	2.5	2.7	3.0	2.9	2.9	3.0	3.2	3.3	3.3
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	4.1	4.4	3.9	4.7	4.2	4.7	4.9	5.1	5.2	5.2	5.7
of which: GST	2.5	2.7	2.2	3.2	2.6	3.2	3.3	3.4	3.6	3.6	4.3
Taxes on international trade and transactions	0.9	0.8	0.8	0.6	0.8	0.6	0.7	0.7	0.7	0.7	0.7
Other Revenue	1.0	0.7	0.6	0.9	1.8	1.2	1.2	1.3	1.4	1.5	1.6
Resource revenue 1/	0.9	1.1	3.9	3.9	3.1	3.4	3.7	3.7	3.7	3.8	4.0
Mining and Petroleum Taxes	0.2	0.7	3.6	3.5	2.1	2.9	3.2	3.2	3.0	3.0	3.1
Mining and Petroleum and Gas Dividends	0.7	0.4	0.3	0.4	1.0	0.5	0.5	0.6	0.7	0.8	1.0
Non-resource revenue	12.0	11.7	11.4	12.9	13.3	13.2	13.4	13.8	14.2	14.3	14.7
Non-resource tax revenue	11.7	11.5	11.2	12.3	12.4	12.4	12.7	13.1	13.6	13.7	14.0
(in percent of non-resource GDP)	*15.4*	*13.9*	*16.4*	*16.8*	*16.7*	*17.1*	*17.4*	*17.8*	*18.1*	*18.0*	*18.1*
Grants	1.7	2.3	1.3	1.0	1.7	1.8	1.4	1.3	1.4	1.3	1.2
Expenditure	**23.5**	**22.0**	**21.9**	**22.1**	**22.0**	**22.2**	**21.1**	**20.2**	**19.3**	**19.3**	**19.6**
Expense	19.3	18.0	17.9	18.8	18.2	18.2	17.1	16.3	15.5	14.9	14.7
Compensation of employees	7.1	6.7	5.8	6.2	6.2	5.6	5.4	5.2	5.0	5.0	5.0
of which: Clearance of retirement arrears				0.2	0.2	0.2	0.1				
Use of goods and services	6.5	6.7	6.7	6.2	6.5	5.7	5.6	5.2	4.9	5.1	5.1
Interest	2.6	2.5	2.3	2.5	2.5	2.7	2.5	2.5	2.5	1.7	1.6
Grants 2/	2.7	2.1	2.7	3.9	2.9	4.1	3.5	3.2	2.9	2.9	2.9
Social benefits 3/	0.3	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Other expenses	0.1	0.1	0.4	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Net acquisition of non-financial assets	4.3	4.0	4.0	3.3	3.8	4.0	4.0	3.9	3.8	4.4	4.8
Gross operating balance	-4.6	-2.9	-1.3	-1.0	-0.1	0.1	1.4	2.5	3.8	4.6	5.2
Net lending (+)/borrowing (-)	**-8.9**	**-6.8**	**-5.3**	**-4.3**	**-3.9**	**-3.9**	**-2.6**	**-1.4**	**0.0**	**0.2**	**0.4**
Primary balance	-6.2	-4.4	-2.9	-1.8	-1.5	-1.3	-0.2	1.0	2.5	1.8	2.0
Non-resource net lending (+)/borrowing (-)	-9.8	-8.0	-9.2	-8.2	-7.0	-7.3	-6.3	-5.1	-3.7	-3.6	-3.6
Non-resource primary balance	-7.1	-5.5	-6.8	-5.7	-4.5	-4.6	-3.9	-2.7	-1.2	-1.9	-2.1
Net financial transactions 4/	**9.0**	**6.9**	**5.3**	**4.3**	**3.9**	**3.9**	**2.6**	**1.4**	**0.0**	**-0.2**	**-0.4**
Net acquisition of financial assets	-1.0	1.8	-0.3	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of financial liabilities	8.0	8.7	4.9	3.8	3.9	3.9	2.6	1.4	0.0	-0.2	-0.4
Domestic	3.5	3.4	2.0	2.0	0.7	0.3	-0.1	-0.5	0.2	3.4	1.0
Treasury bills	2.1	1.5	0.4	0.3	0.3	0.2	-0.1	-0.2	0.1	1.5	0.4
Treasury bonds	1.5	1.7	1.6	1.7	0.4	0.2	-0.1	-0.3	0.1	1.9	0.5
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	4.4	5.4	2.9	1.9	3.2	3.6	2.8	1.9	-0.2	-3.6	-1.4
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-1.4	0.0
IMF SDR allocation		1.4	0.0								
Loans	4.4	5.4	2.9	1.9	3.2	3.6	2.8	1.9	-0.2	-2.2	-1.4
of which net Fund financing	1.5	0.0	0.0	0.6	0.8	0.8	0.9	0.3	-0.2	-0.2	-0.2
Rapid Credit Facility	*1.5*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*-0.1*	*-0.2*	*-0.2*	*-0.2*	*-0.2*
ECF/EFF program	*0.0*	*0.0*	*0.0*	*0.6*	*0.8*	*0.8*	*1.0*	*0.5*			
Extended Fund Facility	*0.0*	*0.0*	*0.0*	*0.4*	*0.5*	*0.5*	*0.7*	*0.3*			
Extended Credit Facility	*0.0*	*0.0*	*0.0*	*0.2*	*0.3*	*0.3*	*0.3*	*0.2*			
Gross government debt	**48.7**	**52.6**	**48.3**	**52.0**	**52.2**	**52.5**	**51.2**	**49.1**	**45.6**	**43.2**	**40.4**
Domestic debt	26.9	27.6	24.8	26.7	22.5	23.2	20.6	17.9	15.8	16.5	16.0
Treasury bills	14.4	14.5	12.4	12.7	12.2	11.6	11.1	10.1	9.6	10.6	10.4
Treasury bonds	11.2	11.8	11.3	13.1	9.4	10.7	8.7	6.9	5.5	5.2	5.0
External debt	21.8	25.0	23.5	25.4	29.7	29.2	30.5	31.2	29.8	26.7	24.4
Debt securities	2.1	1.9	1.6	1.6	1.4	1.4	1.4	1.4	1.3	-0.1	1.2
Loans	19.7	23.1	21.9	23.8	28.3	27.8	29.1	29.8	28.5	26.8	23.1
Memorandum items:											
Contingent liabilities 5/	2.9	2.7	2.2	2.1	1.9	1.9	1.7	1.6	1.5	1.3	1.2
Future unfunded superannuation liabilities	2.9	2.7	2.2	2.1	1.9	1.9	1.7	1.6	1.5	1.3	1.2
SOE borrowing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

1/ Does not include projected revenues from new mining projects where the investment decision has not yet been reached.

2/ Grants include spending on wages and salaries, goods and services, and capital expenditure executed by provincial and local governments.

3/ Refers to direct social assistance. For the program, the indicative target on social spending is more expansive, covering current and capital spending in the identified sectors (see Technical Memorandum of Understanding accompanying the program request).

4/ Discrepancies between the overall balance and financing may 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 data weaknesses.

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

Table 3. Papua New Guinea: Balance of Payments, 2020-2029
(In millions of U.S. dollars)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
			Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	**3,353**	**3,466**	**5,284**	**5,145**	**3,723**	**4,512**	**4,222**	**3,521**	**3,073**	**3,317**
Trade balance	5,418	6,132	9,076	8,585	9,372	9,942	10,093	10,009	10,128	10,389
Exports (f.o.b.)	9,073	11,269	14,372	13,945	14,439	15,323	15,755	15,936	16,332	16,893
Resource	7,232	9,154	12,266	12,189	12,520	13,252	13,545	13,593	13,849	14,255
Nonresource	1,840	2,115	2,106	1,756	1,919	2,071	2,210	2,343	2,484	2,638
Imports (f.o.b.)	-3,655	-5,137	-5,295	-5,360	-5,067	-5,381	-5,662	-5,927	-6,204	-6,504
Resource	-1,115	-1,120	-1,356	-1,338	-1,230	-1,308	-1,378	-1,444	-1,514	-1,589
Nonresource	-2,539	-4,016	-3,939	-4,022	-3,837	-4,073	-4,284	-4,483	-4,691	-4,915
Services	-1,592	-1,844	-2,171	-1,775	-1,769	-1,769	-1,769	-1,769	-1,769	-1,769
Income	-744	-1,125	-1,806	-1,970	-4,158	-3,940	-4,380	-4,996	-5,564	-5,581
Current Transfers	271	302	185	304	278	278	278	278	278	278
Official	331	460	395	406	379	379	379	379	379	379
Private	-60	-158	-209	-101	-101	-101	-101	-101	-101	-101
Capital and financial account balance (+ = inflow)	**-1,726**	**-5,356**	**-10,297**	**-5,628**	**-5,142**	**-5,176**	**-4,114**	**-3,247**	**-3,731**	**-2,915**
Capital account balance	6	6	7	7	7	7	7	7	7	7
Financial account balance	-1,732	-5,362	-10,304	-5,635	-5,149	-5,183	-4,122	-3,254	-3,738	-2,923
Direct investment	-879	-1,702	-2,025	-462	-754	-753	-749	-743	-733	-719
Portfolio investment	-73	31	-212	-24	-77	-77	-77	-77	-577	-77
Other investment	-780	-3,691	-8,066	-5,149	-4,318	-4,353	-3,295	-2,435	-2,428	-2,127
Loans (Net)	475	-410	641	704	892	844	593	-116	-805	-541
Official[1]	955	204	830	910	1,110	881	629	-79	-767	-502
Private	-481	-614	-189	-205	-218	-37	-35	-37	-38	-39
Commercial banks	16	-229	-814	326	1,158	377	-199	-198	751	-299
Other private capital flows[2]	-1,270	-3,052	-7,894	-6,180	-6,368	-5,574	-3,689	-2,120	-2,374	-1,286
Net errors and omissions	-2014	2107	5848	0	0	0	0	0	0	0
Overall balance	**-387**	**217**	**836**	**-484**	**-1,418**	**-665**	**108**	**274**	**-658**	**402**
Financing	**387**	**-217**	**-836**	**484**	**1,418**	**665**	**-108**	**-274**	**658**	**-402**
Change in net reserve assets (+=fall in reserves)	9	-217	-836	308	1,166	377	-199	-198	751	-299
Use of IMF credit	378	0	0	176	252	288	91	-75	-93	-102
Purchases	378	0	0	176	252	323	162	0	0	0
Repurchases	0	0	0	0	0	-35	-70	-75	-93	-102
Memorandum items:										
Current account (in percent of GDP)	14.1	13.3	16.7	16.6	11.9	14.2	12.7	10.2	8.6	9.0
Net international reserves (end-year, millions of U.S. dollars)	2,126	2,343	3,179	2,840	1,673	1,297	1,496	1,694	943	1,243
Net international reserves as per TMU definition (prog. monitoring)	..	..	..	3,292	2,050	1,800	2,000	2,200	1,450	1,750
Gross international reserves (end-year, millions of U.S. dollars)	2,686	3,240	4,032	3,870	2,956	2,868	3,159	3,284	2,441	2,639
In months of nonmineral sector imports	5.8	6.7	8.6	8.6	6.3	5.9	6.3	6.3	4.5	4.7
In months of imports of goods and services	4.5	5.1	6.6	6.6	4.8	4.5	4.8	4.8	3.5	3.6
Public external debt service-to-exports ratio[3] (in percent)	5.4	4.1	2.1	2.7	3.4	4.5	5.4	5.6	8.9	3.3
Public external debt-GDP ratio[3] (in percent)	21.8	25.0	23.5	25.4	29.2	30.5	31.2	29.8	26.7	24.4
Nominal GDP	23,848	26,113	31,610	30,926	31,400	31,830	33,155	34,381	35,629	36,877
Resource exports (in percent of GDP)	30	35	39	39	40	42	41	40	39	39

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

1/ Excludes IMF.
2/ Includes money-transfer via offshore accounts.
3/ Public external debt includes external debt of the central government, the central bank, and statutory authorities.

Table 4. Papua New Guinea: Monetary Developments, 2020-2025

	2020	2021	2022	2023	2024	2025
				Est.	Proj.	Proj.
Bank of Papua New Guinea	**(In millions of kina; end of period)**					
Net foreign assets	7,417	8,221	11,116	10,551	6,929	5,521
Foreign assets	9,424	11,369	14,197	14,425	12,240	12,210
Foreign liabilities	2,007	3,148	3,081	3,873	5,311	6,690
Net domestic assets	-1,370	-1,519	-2,437	-2,630	1,165	2,909
Domestic credit	-918	1,009	-592	238	2,026	2,565
Net credit to government	-1,003	934	-743	-93	1,974	2,513
Claims on the government	1,615	3,581	3,383	3,287	3,974	4,013
Of which: Advances and holdings of inscribed stock and securities	1,615	2,319	2,051	1,874	2,400	2,400
Loans: IMF SDR Allocation		1,260	1,330	1,412	1,575	1,613
Central government deposits	2,619	2,648	4,126	3,380	2,000	1,500
Credit to other sectors	86	75	151	332	51	51
Other items, net	-453	-2,528	-1,845	-2,868	-860	344
Of which: Central bank securities	-1,498	-3,040	-2,655	-4,254	-3,974	-4,194
Of which: IMF credit	1,330	1,293	1,233	2,101	3,678	5,104
Reserve money	6,046	6,702	8,679	7,922	8,095	8,429
Currency in circulation	2,434	2,666	2,970	3,256	3,603	3,909
Deposits of other depository corporations	3,612	4,036	5,709	4,666	4,492	4,520
Required reserves	1,575	1,794	2,910	3,267	3,272	3,494
Excess reserves	2,037	2,242	2,800	1,399	1,220	1,027
Other deposits	0	0	0	0	0	0
Depository Corporations Survey	**(In millions of kina; end of period)**					
Net foreign assets	7,831	8,678	12,038	11,780	8,289	6,995
Net domestic assets	16,049	18,409	19,023	22,370	25,804	29,133
Domestic credit	22,990	26,636	27,044	31,074	34,508	37,837
Net credit to central government	7,451	11,262	11,035	12,792	14,614	16,316
Claims on other sectors	15,539	15,374	16,009	18,282	19,894	21,522
Claims on the private sector	12,754	13,076	13,973	16,056	17,625	19,211
Other items, net	-6,941	-8,227	-8,021	-8,704	-8,704	-8,704
Broad money	23,880	27,087	31,060	34,150	34,093	36,128
Narrow money	18,916	22,107	26,032	29,863	29,977	32,178
Currency outside other depository corporations	1,890	2,152	2,363	2,657	2,551	2,449
Demand deposits	17,026	19,955	23,669	27,207	27,427	29,729
Quasi-money	4,964	4,980	5,029	4,287	4,115	3,950
Securities other than shares	0	0	0	0	0	0
	(Annual percentage change)					
Net foreign assets	2.1	10.8	38.7	-2.1	-29.6	-15.6
Net domestic assets	9.5	14.7	3.3	17.6	15.4	12.9
Net domestic credit	2.3	15.9	1.5	14.9	11.1	9.6
Of which: Private sector	4.2	2.5	6.9	14.9	9.8	9.0
Broad money	7.0	13.4	14.7	9.9	-0.2	6.0
Memorandum items:						
Reserve money (percentage change)	2.2	10.8	29.5	-8.7	2.2	4.1
Gross international reserves (in millions of U.S. dollars)	2,686	3,240	4,032	3,870	2,956	2,868
Nominal nonresource GDP/Broad money	2.6	2.5	2.4	2.4	2.6	2.7

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

Table 5. Papua New Guinea: Financial Soundness Indicators, 2018-2024 Q1
(In percent)

	2018	2019	2020	2021	2022	2023	2024Q1
Capital Adequacy							
Capital to risk-weighted assets 1/	37.1	36.1	39.2	41.1	30.4	39.6	37.3
Tier 1 capital to risk-weighted assets	29.6	28.2	31.9	32.5	21.9	29.6	31.0
Asset Quality							
Nonperforming loans to total loans	3.7	3.8	5.3	6.2	4.8	5.4	5.4
Provisions to nonperforming loans	47.0	55.8	44.2	47.3	39.6	41.1	46.4
Earnings and Profitability							
Return on assets	3.8	4.1	3.8	4.4	3.9	4.0	5.0
Return on equity	12.7	14.4	28.8	33.1	28.8	24.3	30.5
Liquidity							
Liquid assets to total assets	15.9	17.7	18.3	18.9	22.5	19.2	18.9
Loan-to-deposit ratio	71.4	71.3	65.8	59.8	55.6	55.6	56.3
Other							
Tier 1 Capital to total assets	14.5	14.0	14.9	13.5	8.5	13.3	13.3
Risk-weighted assets to total assets	49.3	50.8	48.5	43.8	38.9	44.8	43.1

Sources: Bank of Papua New Guinea; and IMF staff calculations.
1/ Capital base includes Tier 1 and Tier 2 capital.

Table 6. Papua New Guinea: Schedule of Disbursements and Purchases Under the ECF/EFF Arrangements[1]

Availability date	Amount (SDR Million)			Percent of Quota			Conditions for disbursement/purchases
	Total	ECF	EFF	Total	ECF	EFF	
22 March 2023	65.81	21.94	43.87	25.0	8.3	16.7	Executive Board approval of the ECF/EFF arrangements.
18 September 2023	65.81	21.94	43.87	25.0	8.3	16.7	Observance of end-June 2023 performance criteria, and completion of the first review under the arrangements.
18 March 2024	94.75	31.58	63.17	36.0	12.0	24.0	Observance of end-December 2023 performance criteria, and completion of the second review under the arrangements.
18 September 2024	94.75	31.58	63.17	36.0	12.0	24.0	Observance of end-June 2024 performance criteria, and completion of the third review under the arrangements.
18 March 2025	121.07	40.36	80.71	46.0	15.3	30.7	Observance of end-December 2024 performance criteria, and completion of the fourth review under the arrangements.
18 September 2025	121.07	40.36	80.71	46.0	15.3	30.7	Observance of end-June 2025 performance criteria, and completion of the fifth review under the arrangements.
18 March 2026	121.06	40.35	80.71	46.0	15.3	30.7	Observance of end-December 2025 performance criteria, and completion of the sixth review under the arrangements.
Total	**684.32**	**228.11**	**456.21**	**260.0**	**86.7**	**173.3**	

Source: IMF Staff Estimates
1/Papua New Guinea's quota is 263.2 million SDR.

Table 7. Papua New Guinea: External Financing Requirements and Sources, 2020-2029

(In millions of U.S. dollars)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total financing requirements	**-979**	**-5014**	**-10165**	**-5173**	**-4576**	**-4467**	**-3423**	**-2688**	**-2634**	**-2288**
Current account deficit	-3353	-3466	-5284	-5145	-3723	-4512	-4222	-3521	-3073	-3317
Public sector loan amortization	369	342	131	274	308	390	543	578	1134	675
Interest and amortization on existing IMF loans	0	0	1	6	6	32	57	56	55	55
Reserve accumulation (-=fall in reserves)	-9	217	836	-308	-1166	-377	199	198	-751	299
Errors and omissions	2014	-2107	-5848	0	0	0	0	0	0	0
Financing sources	**-2435**	**-6016**	**-10956**	**-5777**	**-5388**	**-5097**	**-4025**	**-2788**	**-2634**	**-2288**
Capital account balance	6	6	7	7	7	7	7	7	7	7
Net foreign direct investments	-879	-1702	-2025	-462	-754	-753	-749	-743	-733	-719
Net portfolio investments	-73	31	-212	-24	-77	-77	-77	-77	-577	-77
Public sector project loan disbursements	247	-456	171	762	863	960	718	380	330	125
Other capital inflows (net)	-1736	-3895	-8896	-6059	-5428	-5235	-3924	-2356	-1661	-1625
Financing gap	**1456**	**1002**	**791**	**603**	**812**	**630**	**601**	**100**	**0**	**0**
Bilateral budget support[1]	558	732	521	408	310	207	190	0	0	0
Multilateral budget support[1] (excl. IMF)	520	270	270	20	250	100	250	100	0	0
IMF financing	378	0	0	176	252	323	162	0	0	0
RCF	378	0	0	0	0	0	0	0	0	0
EFF	0	0	0	117	168	215	108	0	0	0
ECF	0	0	0	59	84	108	54	0	0	0
Unidentified financing	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Memorandum items:										
Annual IMF financing (percent of quota)	100%	0%	0%	50%	72%	92%	46%	0%	0%	0%
Cumulative IMF financing (percent of quota)	100%	100%	100%	150%	222%	304%	330%	309%	282%	243%
IMF share of financing gap (percent)	26%	0%	0%	29%	31%	51%	27%	..	..	..

Sources: Papua New Guinea authorities and Fund staff estimates.

1/Includes loans and grants

Table 8. Papua New Guinea: Indicators of Capacity to Repay the IMF, 2024-2037[1]

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037
	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Fund Obligations Based on Existing Credit (millions of SDRs)														
Principal	-	26.3	52.6	56.3	69.5	76.0	49.7	23.4	23.4	17.6	-	-	-	-
Charges and interest	19.4	19.5	19.5	19.5	19.1	18.4	17.6	16.9	16.2	15.4	15.1	15.0	15.1	15.0
Fund Obligations Based on Existing and Prospective Credit (millions of SDRs)														
Principal	-	26.3	52.6	56.3	69.5	103.8	121.1	117.6	121.7	115.8	98.3	53.8	10.8	-
GRA	-	-	-	3.7	14.6	42.4	69.3	76.0	76.0	72.4	61.4	33.6	6.7	-
PRGT	-	26.3	52.6	52.6	54.8	61.4	51.8	41.6	45.6	43.4	36.8	20.2	4.0	-
Charges and interest	21.5	29.8	37.2	38.3	37.9	36.6	34.0	30.2	26.3	22.5	19.0	16.4	15.2	15.0
Total Obligations Based on Existing and Prospective Credit														
Millions of SDRs	21.5	56.2	89.8	94.6	107.4	140.4	155.0	147.8	148.0	138.3	117.2	70.2	25.9	15.0
Millions of U.S. dollars	28.6	74.8	119.9	126.6	144.1	188.7	208.3	198.6	198.8	185.7	157.5	94.3	34.9	20.2
Percent of exports of goods and services	0.2	0.5	0.8	0.8	0.9	1.1	1.2	1.1	1.1	1.0	0.8	0.5	0.2	0.1
Percent of debt service	0.6	1.6	2.5	2.8	3.1	4.9	5.4	5.1	5.1	4.6	3.7	2.1	0.8	0.5
Percent of GDP	0.1	0.2	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.4	0.3	0.2	0.1	0.0
Percent of gross international reserves	1.0	2.6	3.8	3.9	5.9	7.1	7.5	6.4	5.6	4.5	3.5	1.8	0.6	0.3
Percent of quota	8.2	21.3	34.1	35.9	40.8	53.4	58.9	56.2	56.2	52.5	44.5	26.7	9.9	5.7
Principal	-	10.0	20.0	21.4	26.4	39.4	46.0	44.7	46.2	44.0	37.3	20.4	4.1	-
GRA	-	-	-	1.4	5.6	16.1	26.3	28.9	28.9	27.5	23.3	12.8	2.6	-
PRGT	-	10.0	20.0	20.0	20.8	23.3	19.7	15.8	17.3	16.5	14.0	7.7	1.5	-
Outstanding Fund Credit Based on Existing and Prospective Credit														
Millions of SDRs	584.3	800.1	868.6	812.3	742.8	639.0	517.9	400.3	278.6	162.8	64.6	10.8	-	-
GRA	214.1	375.5	456.2	452.6	437.9	395.5	326.2	250.2	174.1	101.8	40.4	6.7	-	-
PRGT	370.2	424.6	412.4	359.7	304.9	243.5	191.7	150.1	104.5	61.1	24.2	4.0	-	-
Millions of U.S. dollars	776	1,065	1,160	1,087	997	858	696	538	374	219	87	14	-	-
Percent of exports of goods and services	5.3	6.9	7.3	6.7	6.0	5.0	4.0	3.1	2.1	1.2	0.4	0.1	-	-
Percent of debt service	16.4	22.5	23.8	23.8	21.6	22.4	18.2	13.8	9.6	5.5	2.1	0.3	-	-
Percent of GDP	2.5	3.3	3.5	3.2	2.8	2.3	1.8	1.3	0.9	0.5	0.2	0.0	-	-
Percent of gross international reserves	26.3	37.2	36.7	33.1	40.8	32.5	25.1	17.4	10.5	5.3	1.9	0.3	-	-
Percent of quota	222.0	304.0	330.0	308.6	282.2	242.8	196.8	152.1	105.9	61.9	24.5	4.1	-	-
GRA	81.3	142.7	173.3	171.9	166.4	150.3	123.9	95.1	66.2	38.7	15.3	2.6	-	-
PRGT	140.7	161.3	156.7	136.7	115.8	92.5	72.8	57.0	39.7	23.2	9.2	1.5	-	-
Net Use of Fund Credit (millions of SDRs)														
Disbursements and purchases	189.5	242.1	121.1	-	-	-	-	-	-	-	-	-	-	-
Repayments and repurchases	-	26.3	52.6	56.3	69.5	103.8	121.1	117.6	121.7	115.8	98.3	53.8	10.8	-
Memorandum Items:														
Exports of goods and services (millions of U.S. dollars)	14,654	15,538	15,969	16,151	16,547	17,107	17,265	17,601	18,122	18,754	19,408	20,089	20,798	21,536
Debt service (millions of U.S. dollars)	4,728	4,730	4,876	4,571	4,618	3,835	3,828	3,899	3,881	3,998	4,216	4,388	4,346	4,381
Nominal GDP (millions of U.S. dollars)	31,400	31,830	33,155	34,381	35,629	36,877	38,372	40,371	42,923	45,893	48,981	52,310	55,900	59,771
Gross International Reserves (millions of U.S. dollars)	2,956	2,868	3,159	3,284	2,441	2,639	2,769	3,095	3,557	4,108	4,532	5,145	5,964	6,903
Average exchange rate: SDR per U.S. dollars	0.75	0.75	0.75	0.75	0.75	0.74	0.74	0.74	0.74	0.74	0.74	0.74	0.74	0.74
Quota (millions of SDRs)	263.2	263.2	263.2	263.2	263.2	263.2	263.2	263.2	263.2	263.2	263.2	263.2	263.2	263.2

Source: IMF staff calculations.

1/ PNG has not accessed the RSF facility.

Table 9. Papua New Guinea: Summary Table of Projected External Borrowing Program January 1, 2024, to December 31, 2024[1]

PPG external debt	Volume of new debt in 2024		PV of new debt in 2024 (program purposes)		PV of new debt in 2024 (including negative GEs)	
	USD million	Percent	USD million	Percent	USD million	Percent
Sources of debt financing	**1136.9**	**100**	**1008.2**	**100**	**1058.8**	**100**
Concessional debt, of which	**100.0**	**9**	**59.7**	**6**	**59.7**	**6**
Multilateral debt	100.0	9	59.7	6	59.7	6
Bilateral debt	0.0	0	0.0	0	0.0	0
Other	0.0	0	0.0	0	0.0	0
Non-concessional debt, of which	**1036.9**	**91**	**948.5**	**94**	**999.2**	**94**
Semi-concessional	544.2	48	455.8	45	455.8	43
Commercial terms	492.7	43	492.7	49	543.4	51
By Creditor Type	**1136.9**	**100**	**1008.2**	**100**	**1058.8**	**100**
Multilateral	283.9	25	191.8	19	191.8	18
Bilateral - Paris Club	803.0	71	778.5	77	829.2	78
Bilateral - Non-Paris Club	50.0	4	37.9	4	37.9	4
Other	0.0	0	0.0	0	0.0	0
Uses of debt financing	**1136.9**	**100**	**1008.2**	**100**	**1058.8**	**100**
Infrastructure	726.6	64	656.3	65	707.0	67
Social Spending	0.0	0	0.0	0	0.0	0
Budget Financing	410.3	36	351.9	35	351.9	33
Other	0.0	0.0	0.0	0.0	0.0	0.0
Memo items						
Indicative projections						
Year 2	**639.5**		**530.5**		**530.5**	
Year 3	**289.7**		**247.4**		**247.4**	

[1] Present value calculations for January 1, 2024-December 31, 2024, period.

Table 10. Papua New Guinea: Decomposition of Public Debt Service by Creditors[1], 2023-2025

	Debt Stock (end of period)			Debt Service					
	2023			2023	2024	2025	2023	2024	2025
	(In US$ million)	*(Percent total debt)*	*(Percent GDP)* [5]	*(In US$ million)*			*(Percent GDP)*		
Total	15546	100	52	5078	4728	4730	16	15	15
External	7575	49	25	405	476	646	1	2	2
Multilateral creditors[2,3]	3559	23	12	179	173	284	1	1	1
IMF	886	6	3	6	6	32	0	0	0
World Bank	569	4	2	22	30	40	0	0	0
ADB	2004	13	7	144	129	203	0	0	1
Other Multilaterals	101	1	0	7	8	10	0	0	0
Bilateral Creditors[2]	3449	22	12	171	255	313	1	1	1
Paris Club	2161	14	7	59	126	182	0	0	1
o/w: Australia	1670	11	6	44	112	146	0	0	0
Non-Paris Club	1289	8	4	112	129	131	0	0	0
o/w: China EXIM	1101	7	4	90	97	100	0	0	0
Bonds	500	3	2	41	42	42	0	0	0
Commercial creditors	66	0	0	14	7	7	0	0	0
Other international creditors	0	0	0	0	0	0	0	0	0
Domestic	7971	51	27	4673	4252	4084	15	14	13
Held by residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Held by non-residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
T-Bills	3794	24	13	3830	3604	3279	12	11	10
Bonds	3396	22	11	685	527	655	2	2	2
Loans	782	5	3	158	121	151	1	0	0
Memo items:									
Collateralized debt[2,4]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Contingent liabilities	769	5	2	n/a	n/a	n/a	n/a	n/a	n/a
Nominal GDP	30926								

1/ As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.

2/ Some public debt may not be shown in the table due to confidentiality clauses/capacity constraints.

3/ "Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)

4/ Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

5/ Debt ratios are constructed by converting external debt to Kina using end-period exchange rate and dividing by Kina GDP.

Table 11. Papua New Guinea: Structural Benchmarks (November 2023—May 2025)

Measure	Purpose/Macro-Criticality	Implementation Date	Status of Implementation
Budget Repair			
Introduce amendments to the Income Tax Act to the Parliament aimed at strengthening revenue mobilization, streamlining its operation and ensuring consistency with the Tax Administration Act.	To strengthen domestic revenue mobilization.	End-December 2023	Not met. (***proposed to be reset to end-December 2024***)
Develop an initial worksheet of output-based key performance indicators to be applied at IRC's individual, team and division levels.	To enhance revenue administration and increase IRC's organizational productivity.	End-May 2024	In progress.
Submit to the Parliament amendments to the Internal Revenue Commission Act 2014, in consultation with the IMF, to establish a Board for IRC's oversight.	To strengthen IRC's governance.	End-October 2024	In progress. (***proposed to be reset to end-December 2024***)
Complete data cleansing over current payroll records in the AscenderPay IT system and produce a report on the outcome of the cleansing exercise, shared with the IMF.	To ensure integrity of payroll information and enhance payroll management.	End-August 2024	In progress.
Governance and Operations of the BPNG			
Submit to the Parliament amendments to the CBA, in consultation with Fund staff, to address the remaining issues related to mandate, governance, autonomy, transparency, and accountability of BPNG and improvements in financial regulation and supervision.	To strengthen BPNG's financial independence and governance and improve the operation of the financial system.	End-December 2023	Not met. *(partially implemented with delay in June 2024)*
Set the parameters for the framework of the crawl-like exchange rate arrangement to be implemented starting in early December 2023: (i) anchor currency; (ii) modalities for the calculation of the rate of crawl; (iii) width of the crawl band; (iv) pace of regular reviews/updates; (v) strategy for communication of the arrangement to the market; (vi) modalities for FX interventions to support the arrangement.	To prepare the shift to a crawl-like exchange rate arrangement and enable the gradual return to kina convertibility by the end of the program.	End-November 2023	Met.
Publish all regulations and directives regarding the FX market on BPNG's website.	To increase transparency and level the playing field in the FX market.	End-December 2023	Met.
Eliminate BPNG's requirement of a tax clearance certificate to include FX orders related to intercompany loans obtained for import payments in the orderbook.	To increase transparency and level the playing field in the FX market.	End-December 2023	Met.
Align the rate used for the issuance of the 7-day central bank bills with the Kina Facility Rate.	To improve monetary policy effectiveness and strengthen the monetary policy transmission.	End-December 2023	Met.
Appoint the Governor and Deputy Governors of the BPNG and fill out all vacancies at the BPNG Board.	To ensure sound governance of the BPNG and facilitate implementation of the roadmap.	End-November 2023	Not met. *(implemented with delay in April 2024)*

Table 11. Papua New Guinea: Structural Benchmarks (Concluded) (November 2023—May 2025)			
Measure	**Purpose/Macro-Criticality**	**Implementation Date**	**Status of Implementation**
Implement an interest rate corridor, centered around the Kina Facility Rate (KFR), and bounded by standing overnight deposit and borrowing facilities priced at +/- 150 bps around the KFR.	To enhance liquidity management.	End-August 2024	**Newly proposed.**
Modify to extend the lagged reserve maintenance period to 4-weeks and introduce partial reserve averaging.	To enhance liquidity management.	End-August 2024	**Newly proposed.**
Governance and Anti-Corruption Framework			
Adopt key implementing regulations to the ICAC law.	To specify operational processes for ICAC to meet its preventive, investigative and prosecutorial mandates, and to ensure sharing of information across relevant entities.	End-December 2023	Not met. *(implemented with delay in May 2024)*
Post details (including the names of the entities awarded the contract and their beneficial owners) of COVID-19 related procurements awarded on the government procurement website, at least covering years 2020 and 2021.	To improve transparency in public procurement in COVID-related contracts, in line with commitments made under the disbursement under the Rapid Credit Facility.	End-December 2023	Not met. *(partially implemented with delay in March 2024)*
Initiate an inter-agency working group on external sector statistics including representatives from the NSO, Treasury Department, PNG Customs Service and the BPNG.	To improve the consistency of external sector statistics with other official statistics.	End-June 2024	In progress.
Appoint the ICAC's oversight committee, as mandated by Part XII of the ICAC law.	To ensure sound governance and independent oversight over ICAC's operations.	End-September 2024	**Newly proposed.**
Adopt memoranda of understanding between ICAC and at least four of the following agencies involved in the fight against corruption: (i) the BPNG's Financial Analysis and Supervision Unit (FASU), (ii) the Police, (iii) the Ombudsman's Office, (iv) the Auditor General's Office; and (v) the Public Prosecutor's Office.	To facilitate collaboration and exchange of information between anti-corruption agencies.	End-December 2024	**Newly proposed.**

Annex I. Risk Assessment Matrix[1]

Sources of Risk	Relative Likelihood	Expected Impact	Staff Advice on Policy Response
Regional/Domestic Risks			
Natural disasters and extreme climate events.	**Medium**: PNG is highly vulnerable to natural disasters (flooding, landslides, earthquakes) and climate change (droughts & sea level rise). Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	**Medium**: Negative impact on GDP growth, export and fiscal revenues, higher inflation.	Invest in disaster risk reduction and resilience with the help of development partners. Build fiscal and external buffers for post-disaster relief effort.
Widespread social discontent and political instability.	**High**: The limited capacity of the state, a high level of social fragmentation and the anticipated socio-economic impact of ongoing reforms remain chronic sources of political instability. The 18-month grace period following the most recent elections has ended, which could lead to political instability.	**High**: Adverse impact on foreign direct investment and confidence, negatively impacting growth. This can exacerbate pre-existing inequalities, causing socio-economic hardship (unemployment, poverty).	Focus on transparent and effective communication on key policies. Implement policies to support vulnerable households for which there is a need to build fiscal buffers through fiscal consolidation.
Major natural resource projects initiated; Higher LNG revenues over the medium term.	**High**: Some major projects are being negotiated, but not yet included in the baseline.	**High**: *Upside risk.* Favorable impact on GDP, external balance, and fiscal position.	Fast-track their implementation; Build fiscal and external buffers.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Sources of Risk	Relative Likelihood	Expected Impact	Staff Advice on Policy Response
Global Risks			
Cyberthreats.	**Medium**: Cyberattacks on physical or digital infrastructure and service providers or misuse of AI technologies trigger financial and economic instability. PNG had a major ransomware attack in October 2021.	**Medium**: Can affect provision of Government service and trigger financial and economic instability or widespread disruptions in socio-economic activities and remote work arrangements.	Need to invest in advanced IT security systems and train key personnel on cyber/ ransomware attacks. Invest in business recovery sites and backup for important Government services and financial sector
Commodity price volatility.	**High**: A succession of supply disruptions (e.g., due to conflicts, export restrictions, and OPEC+ decisions) and demand fluctuations causes recurrent commodity price volatility.	**High**: Volatility in commodity prices will have an impact on external position and fiscal balance. This leads to bouts of price and real sector volatility.	Higher resource revenue should help create fiscal space. Continue with fiscal spending to support the most vulnerable but ensure fiscal consolidation remains priority. Build buffers to prepare for lower commodity prices.
Abrupt global slowdown or recession.	**Medium:** Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation triggering sudden stops in EMDEs.	**High:** Would lead to lower external demand and lower commodity prices; BOP would worsen.	Build buffers to support the economy and most vulnerable in the non-resource sector, as needed.

Annex II. External Sector Assessment

Overall Assessment: *Papua New Guinea's external position in 2023 was moderately weaker than the level implied by fundamentals and desirable policy settings. The estimate real effective exchange rate for 2023 was overvalued by 4.9 percent. The overvaluation has moderated since 2022 due to Kina depreciation, more favorable external conditions, and lower inflation in PNG, when it sat at 13.9 percent.*

Potential Policy Responses: *The assessment of Kina valuation is consistent with persistent foreign exchange shortage, and limited exchange rate adjustment to international inflation differentials or terms of trade movements. Future real exchange rate depreciation would help support competitiveness of non-resource exports and address foreign exchange shortages. Improved FX operations and liquidity management –which are part of the program objectives– would also strengthen the BPNG's ability to manage inflation and the real exchange rate. Additionally, the envisioned fiscal consolidation will help curb external imbalances over the medium term.*

Foreign Assets and Liabilities: Position and Trajectory

Background. PNG does not produce international investment position (IIP) data. Notwithstanding IIP data limitations, risks to PNG's external position come from the elevated public debt, compounded with the Eurobond bullet payment due in 2028 and higher official bilateral and multilateral debt service payments between 2026 and 2029. Significant FDI inflows related to mining projects may act as a mitigating factor given the long mid-life of these projects.

Current Account

Background. In 2023, the volume of goods exports expanded by close to 9 percent from 2022 (10.4 percent drop one year before). The improvement was lifted by the rebound of mineral and petroleum shipments from the previous year, while non-mineral export volumes remained dynamic. As commodity prices moderated in 2023, export values fell by close to 5 percent compared to one year before (after gaining almost 30 percent in 2022). The nominal value of goods imports was broadly stable in 2023 (+3.1 percent in 2022), with imports of fuels and related goods underwhelming amid a generalized slowdown. Consequently, the current account (CA) surplus remained broadly stable at 16.6 percent of GDP (16.7 percent of GDP in 2022).

Assessment. The statistical challenges arising from the current account series have motivated continuous TA support and led to significant revisions of historical series by the authorities (see IMF 2023b, Annex V). These data considerations are behind the adjustment to the CA norm included in the analysis (EBA-lite Model Results, 2023 table)[1], despite this the CA model provides an assessment that is not fully consistent with other macroeconomic fundamentals.

Hence, considering all estimates, the uncertainties around them, and in line with recent ESAs, staff's assessment of PNG's external position is primarily based on the REER model, which has historically performed better. This model's suggested overvaluation implies a CA gap of -1.6 percent of GDP, which is indicative that the external position is moderately weaker than the level implied by fundamentals and desirable policies. The assessment remains unaffected if we use the semi-elasticity of -0.33 estimated in Nakatani 2017 (and used in IMF 2023a).

Text Table. Papua New Guinea: EBA-Lite Model Results, 2023

	CA model 1/	REER model 1/
	(in percent of GDP)	
CA-Actual	**15.9**	
Cyclical contributions (from model) (-)	0.4	
Natural disasters and conflicts (-)	0.0	
Adjusted CA	**15.5**	
CA Norm (from model) 2/	**-0.7**	
Adjustments to the norm (+) 3/	13.2	
Adjusted CA Norm	**12.5**	
CA Gap	**3.0**	**-1.6**
o/w Relative policy gap	2.2	
Elasticity	-0.3	
REER Gap (in percent)	**-9.0**	**4.9**

1/ Based on the EBA-lite 3.0 methodology
2/ Cyclically adjusted, including multilateral consistency adjustments.
3/ Adjustment reflect structural change in BoP balance following impact of large natural resource projects.

Real Exchange Rate

Background. While the kina steadily depreciated in nominal terms (NEER) since 2012, the REER has remained relatively stable over the past decade. Departing from recent history, in 2023 the NEER depreciated by 4.3 percent, while the REER depreciated by 2.7 percent. Despite the authorities measures that favored a gradual nominal depreciation vis-à-vis the US dollar that since May 2023, the currency remains elevated relative to historical standards amid a strengthening of the US dollar globally in the second half of last year.

Assessment. The EBA-lite REER model suggests that the Kina was overvalued by 4.9 percent at the end of 2023. This overvaluation in the REER is broadly consistent with alternative high frequency (quarterly), fundamentals-based time series models for a commodity-intensive economy like PNG (more details available in Annex VI, IMF 2023b). The REER was 13.4 percent overvalued in 2022 (IMF 2023a). The overvaluation of the Kina contributes to continued pressures in the domestic FX market.

Exchange Restrictions and Developments in, and Policy Measures Affecting, the Capital and Financial Accounts

Background. The capital account balance continues to be very small (US$7 million in 2023, net). The financial account balance deficit narrowed in 2023 to US$5.6 billion, from US$10.3 billion in 2022. Net direct investment in 2023 amounted to around US$-0.5 billion (US$-2.0 billion in 2022), as investments abroad moderated significantly. Portfolio investment and financial derivatives have traditionally been negligibly small. Most investment flows, including offshore flows, are captured as other investments.

Assessment. PNG maintains exchange restrictions subject to IMF approval under Article VIII, Section 2(a) of the IMF's Articles of Agreement, which staff recommends gradually eliminating, consistent with the Roadmap for monetary and FX reforms currently implemented by the authorities with the support of the IMF program. Authorities must continuously calibrate the rate of reserve drawdown to ensure sustainability of the convertibility of the Kina in the medium term, while structural policies aimed at improving PNG's competitiveness and attracting foreign direct investment will be needed to durably increase FX inflows. A fiscal policy gap contributes towards the current account gap. In line with the revised Multiple Currency

Practices Policy that became effective on February 1, 2024, all MCPs maintained[2] under the previous MCP policy are considered eliminated as of February 1, 2024. The exchange rates are being monitored for impermissible spreads under the revised MCP policy.

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 2023, gross reserves moderated to US$ 3.9 bn, covering 6.6 months of total imports (or 8.6 months of non-mineral imports) as BPNG efforts to evacuate the backlog of FX orders dominated the foreign inflows (including loan disbursements). Over the past few years, the BPNG has been targeting a gross international reserves level of no less than US$2.0 billion to meet the economy's needs for FX.

Assessment. Despite the gradual retreat, still elevated commodity prices in 2023 partially offset supply constraints. As in recent years, the disbursement of external project financing and bilateral budget support typically occurred towards the end of the year, implying that FX position improved by year-end. The reserve adequacy assessment suggests that a floor of about US$2.0 billion appears sufficient to cover needs without severe disruption. However, a reserve path above this floor remains appropriate in the case of a fragile state like PNG, given the higher level of uncertainty it faces, and sensitivity of reserves to commodity prices. Going forward, addressing FX shortages with the aim of a gradual return to kina convertibility, will require the gradual eliminating exchange restrictions and the adoption of a market-determined exchange rate.

References

IMF, 2023a, Papua New Guinea: Requests for an Arrangement under the Extended Credit Facility and an Extended Arrangement under the Extended Fund Facility-Press Release; Staff Report; and Statement by the Executive Director for the Papua New Guinea, Country Report No. 2023/126 (Washington, DC: International Monetary Fund).

IMF, 2023b, Papua New Guinea: First Reviews under Extended Arrangement under the Extended Fund Facility and an Arrangement under the Extended Credit Facility, and Request for Modification of Quantitative Performance Criteria-Press Release; Staff Report; and Statement by the Executive Director for Papua New Guinea, Country Report No. 2023/385 (Washington, DC: International Monetary Fund).

Nakatani, Ryota, 2017, "External Adjustment in a Resource-Rich Economy: The Case of Papua New Guinea", IMF Working Papers, Volume 217, Issue 267, Washington, DC.

[1]Historical data on the CA balance in PNG was overstated due to long-standing challenges in classifying large income account outflows, including external debt service payments related to resource projects. On the back of consecutive TA missions, series have continuously been revised —and recently migrated to BPM6 standards (see Annex V in IMF Country Report No. 23/385)— a process that will endure under the current Fund-supported program. The improved data allow staff to estimate the CA has undergone a structural change in the early 2010's, when the CA recorded significant deficits given large investments in natural resource projects, which was followed by surpluses of over 15pp of GDP after the projects entered their production phase (post 2015). These surpluses, although more moderate, are anticipated to continue until at least the end of the decade, justifying the proposed adjustment to the norm.

[2] PNG previously maintained MCPs subject to Fund approval under Article VIII, Section 3 (1) an MCP arising from the spread of more than 2 percent between the rates set by Bank of Papua New Guinea (BPNG) for its foreign exchange allocations to authorized foreign exchange dealers (AFEDs), and the rates used by AFEDs in transactions with their clients; and (2) an MCP arising from the potential spread deviation of more than 2 percent between the rates set by BPNG for its FX transactions with the government and embassies, and the rates use by AFEDs in transactions with their clients.

Annex III. The Macroeconomic Impact of Social Unrest[1]

Social unrest events, such as the one that occurred in PNG in January 2024, can have an impact on the economic performance of countries, depending on how widespread and frequent they are.

Economic Performance and Unrest

1. The relationship between social unrest and growth is complex. Social unrest can hamper economic growth. However, social unrest may also be a response to factors such as inequality, the evolution of basic staple prices (such as food and fuel), and unresolved (legacy) issues, which may stem from low growth. Additionally, other factors could be driving both social unrest and low growth.

2. Empirical evidence suggests there is a close link between unrest events and subsequent economic performance. On average, major unrest events are followed by a 1 percentage point reduction in GDP six quarters after the event (Hadzi-Vaskov et al., 2021). There is also evidence that lower growth and higher inequality are associated with more social unrest. Importantly, higher social unrest, in turn, is associated with lower growth, which exacerbates inequality, creating a vicious cycle (Saadi Sedik and Xu, 2020).

3. In the case of PNG, the social unrest of January 10 is expected to have a temporary and limited impact on the economy (Figure AIII.1). Although the social unrest led to the looting and destruction of some retail businesses mainly in the capital city of Port Moresby, it was quickly contained with the authorities restoring order within two days. Growth in the non-resource sector has been revised down by 0.2 percentage points, largely driven by a temporary halt in retail activities of businesses directly affected by the unrest, with no impact on resource sector activity. On the fiscal side, the authorities have committed to introduce a fiscal package to assist the affected businesses. It is expected to be of limited size and should be covered by existing contingency budget appropriations.

Mitigating the Impact of Unrest

4. Higher growth or a decrease in the perception of inequality may contribute to less frequent and milder unrest events. Moreover, open and democratic institutions appear to play a more significant role in mitigating the impact of unrest. For example, following social unrest, the drop in stock returns (proxy for economic performance) is milder in the context of stronger institutions (Barrett, et al., 2021). This highlights the importance of having a comprehensive policy framework that fosters stronger institutions. There is also evidence that the impact of inequality on social unrest depends on the extent of redistributive transfers. An increase in inequality is associated

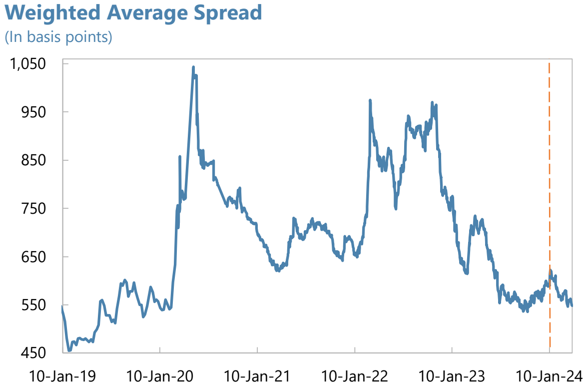
[1] This annex illustrates the short-term impact of the January 2024 social unrest events. Some of its causes are rooted in structural, long-term drivers of fragility (e.g., fragile national unity, weak institutions and governance, high levels of social fragmentation, and youth disempowerment), discussed in the Country Engagement Strategy (CES), included in the Staff Report for the First Reviews Under the ECF and an Extended Arrangement Under the EFF (IMF Country Report No. 23/385).

with more unrest when redistributive transfers are low, suggesting that social safety measures help reduce social tensions and, thus, the impact on economic activity.

Figure AIII.1. High Frequency Indicators on Activity Around the Social Unrest Event

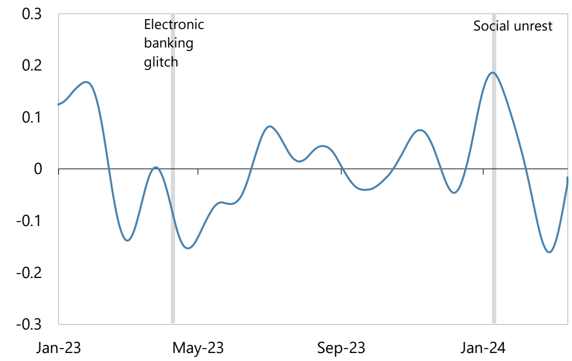
Financial market reaction: spreads increased but quickly went pre-unrest levels …

Weighted Average Spread



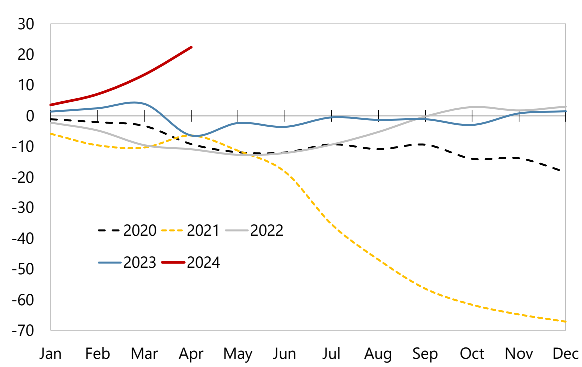
… Electronic transactions dipped but are recovering.

Daily Retail Electronic Payments Transacted



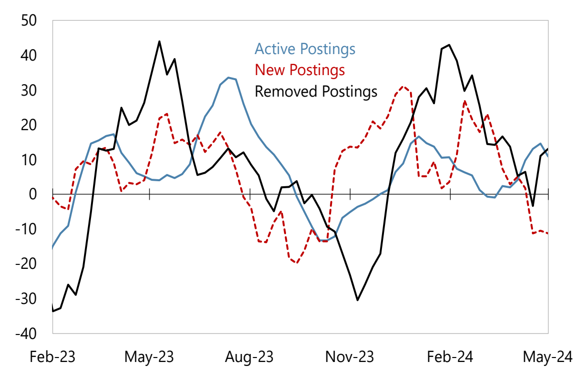
Vessel arrivals stand robust …

Daily Vessel Arrival



… while job postings remain subdued.

Weekly Job Postings



Source: Bloomberg Back Office and the Sovereign Debt Monitor (SDM), a database and data processing tools developed by IMF staff; (sources to be added before dept review).

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Barrett, Philip, Mariia Bondar, Sophia Chen, Mali Chivakul, and Deniz Igan. 2021. "Pricing Protest: The Response of Financial Markets to Social Unrest." IMF Working Paper 21/079, International Monetary Fund, Washington, DC.

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Annex IV. Poverty Reduction and Growth Strategy for Papua New Guinea

1. The Government of Papua New Guinea launched a new Poverty Reduction and Growth Strategy (PRGS) in January 2023 – PNG's Medium-Term Development Plan IV (MTDP IV). Covering the period 2023-2027, the MTDP IV provides for the authorities' medium-term goals, strategic priorities and investments, consistent with the "Vision 2050" aspirations, and outlines the Government's strategic policies aimed at achieving key developmental objectives which would all contribute to effectively reducing poverty. These objectives include doubling domestic revenue and export revenue, creating one million additional jobs, and improving standards of living for all PNG citizens. The PRGS was developed through an extensive consultation process, benefitting from contributions from central government agencies, provincial and district administrators, development partners, private sector partners, civil society, and faith-based organizations.

2. The PRGS is structured around 12 key Strategic Priority Areas (SPAs), supported by concrete intervention programs and projects and measured through quantifiable targets and indicators. It incorporates new policy, legislative and institutional initiatives to progress the country's inclusive development. Key initiatives expected to contribute to alleviating poverty and increasing living standards include reforms to reinforce the micro, small and medium enterprises sector, the continuation of the Connect PNG infrastructure program, the development of a national health insurance policy, enhancements to energy security policies, and the expansion of education infrastructure.

3. The ECF/EFF arrangements are well aligned with the goals and strategic priorities of the PRGS. The PRGS aims at achieving sustainable growth and development through physical infrastructure and digitalization, investment in health, education and law and order, and climate and gender policies. The fiscal repair strategy supported by the ECF/EFF program will help create fiscal space and allocate resources to these goals, while increasing spending efficiency – including through stronger governance and enhanced transparency. Consistent with the PRGS priorities, spending on health, education and law and order are ring-fenced from fiscal adjustment under the program. The implementation of the Roadmap of monetary and FX reforms will help tackle foreign exchange shortages, which currently act as a major impediment to growth and to private sector development.

4. Coordination and monitoring efforts will be critical to the effective implementation of the PRGS. The close collaboration of the departments in charge of planning and of budgeting is particularly essential to ensure that the objectives and targets of the PRGS fully inform budget allocations. Regular monitoring of progress and the preparation of a midterm update of the PRGS are also important to make sure that priorities remain up-to-date, and that delays or funding needs are addressed proactively.

Appendix I. Letter of Intent

Ms. Kristalina Georgieva	June 13, 2024
Managing Director	Port Moresby
International Monetary Fund	
Washington, D.C. 20431	

Dear Ms. Georgieva:

The Government of Papua New Guinea has continued its wide-ranging program of reforms, supported by the International Monetary Fund (IMF) and other international partners. This reform focus has allowed us to make significant strides in lifting the performance of the economy and improving the living standards of our people in line with our poverty reduction and growth strategy, including by starting to address some issues that have been outstanding for too long. These have comprised restarting broad based growth; redirecting economic policy effort towards the rural sector and SMEs; revamping public finance including seeking greater returns from our resources, investing in infrastructure, and containing wage bill expenditure improving governance, including through reform of our state-owned enterprises (SOEs); central banking reforms and promoting private investment, to deal with foreign exchange shortages; and crucially our 13 year program of budget repair with a return to budget surplus by 2027 and the option to repay all debt by 2034.

The support from the IMF has been valuable in helping focus and build a coalition around our reforms. Under the current Extended Fund Facility (EFF) and Extended Credit Facility (ECF) arrangements, we have continued to make significant strides in progressing our reform agenda to ensure sustainable growth and poverty reduction especially for rural areas.

We are pleased to have met all end-December 2023 quantitative targets and indicative targets and all continuous performance criteria in the Second Review, and, under the EFF arrangement, we would like to request waiver of applicability for the end-June 2024 quantitative targets. Out of nine structural benchmarks due, we have fully implemented six, including four in timely fashion, and partially implemented two with delay. We remain fully committed to the implementation of the delayed structural benchmark on amendments to the Income Tax Act; we are requesting resetting the deadline from end-December 2023 to end-December 2024 to allow more time to prepare the associated regulations, integrate inputs and views from a broad range of stakeholders and experts, and prepare adequate communication about the reforms. This is particularly important given that the unfortunate riots in January 2024 were blamed on recent minor tax changes.

We have continued our progress on budget repair, overperforming against our 2023 deficit target by over K180 million against our budget, and K130 million against our supplemental budget. This represents a K2.6 billion reduction in the deficit since 2020, and the third year of overperformance against the budget in terms of deficit reduction. This has been done while maintaining over the period the historically high level of capital investment that our country needs to build the connections between our major cities, develop our airports, and upgrade our ports.

The timely implementation of structural reforms and monetary policies have been important. For instance, the alignment of the issuance rates of the 7-day Central Bank Bills with the Kina Facility Rate in November 2023 has enhanced our monetary transmission mechanisms. We have also established the parameters for our crawl-like exchange rate arrangement. Restrictions to foreign exchange and trade are being gradually eased by the elimination of the central bank's requirement for a tax clearance certificate on inter-company loans for imports. Additionally, our governance improvements, marked by the filling of key positions within the Bank of PNG, including the appointment of a Deputy Governor in April 2024 and all vacant Board members, have strengthened our financial system's stability and responsiveness. These recent achievements underscore our proactive stance in addressing economic challenges and fostering a conducive environment for sustainable growth and investment. In addition, on debt management, we successfully implemented the Guarantee Policy, upgraded the Commonwealth Debt Recording System to Meridian, and are finalizing the annual Debt Bulletin. We are also progressing on amendments to the Income Tax Act (ITA), have submitted Central Banking Act (CBA) amendments to Parliament, and have completed the implementing regulations for the ICAC Act.

Overall, we remain committed to our targets and value our collaboration with the IMF. We are grateful for the IMF and the Resident Representative's office's support in communication of the reform program. We have maintained consistent and timely reporting and engagement with the IMF. While much remains to be done, we have set the groundwork for a strong continuing reform agenda.

Despite tackling some key structural vulnerabilities, there remain many that we continue to proactively address: ensuring adequate financing to maintain our budget repair plan while protecting key social services; continuing governance reforms; dealing with our balance of payments imbalance; moving back towards a freely convertible Kina to help deal with a lack of predictable availability of foreign exchange for the private sector; and addressing an ongoing vulnerability to the effects of climate change for many parts of our country. Accordingly, our reform priorities for the next twelve months of the program will center on improving our cash management processes and ensuring we can control expenditures, for which we have requested IMF technical assistance; and raising domestic revenue. As a first step towards these we plan to pass amendments to the Income Tax Act to strengthen revenue mobilization; improve performance and governance arrangements at the Internal Revenue Commission; and complete cleansing of payroll records. We will also continue implementation of the monetary policy and exchange rate policy frameworks, as set out in our reform roadmap. And we will continue supporting the full operationalization of the ICAC and further improvements in governance and transparency. These will be the focus of our program, as set out in the attached Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding (TMU).

In addition, given Papua New Guinea's high vulnerability to climate change and the pressing need to increase resilience, we are hard at work to develop climate mitigation, adaptation and disaster management programs in line with our international climate commitments and in coordination with our international partners. We have requested to the IMF a Climate Policy Diagnostic (CPD) and a Climate Public Investment Management Assessment (C-PIMA), which will provide us with a detailed overview of our climate policies and with recommended reform priorities. We have sought access to the Resilience and Sustainability Facility (RSF), which we propose to be informed by these diagnostics.

We are confident that our policies are adequate to achieve the objectives of the program and will take any additional measures that may become appropriate for this purpose. We will consult with the IMF on the adoption of these measures, and in advance of any revision contained in the MEFP, in accordance with the IMF's policies on such consultation and will refrain from any policy that would not be consistent with the program's objectives and our commitments herein. Moreover, we will provide all information requested by the IMF to assess implementation of the program.

We request the completion of the Second Review under the ECF and EFF arrangements and the release of the related purchase and disbursement. We request the setting of the end-March 2025 indicative targets and end-June 2025 performance criteria, and the addition of an adjustor to the net international reserves floor, conditional on external financing disbursements. Upon approval of this request by the IMF Executive Board, we are requesting an immediate disbursement of SDR 94.75 million (36.0 percent of quota), of which SDR 31.58 million (12.0 percent of quota) under the ECF and SDR 63.17 million (24.0 percent of quota) under the EFF. This disbursement under the ECF/EFF program will help address balance of payments and budget financing needs, while smoothly achieving the next stage of our reform plan.

Underscoring our ongoing commitment to transparency, we consent to the publication of this letter, the MEFP, TMU and related board documents.

Yours Sincerely,

Hon. James Marape
Prime Minister of the Independent State of Papua New Guinea
/s/
Hon. Ian Ling-Stuckey, CMG. MP.
Minister of the Independent State of Papua New Guinea

/s/
Ms. Elizabeth Genia
Governor, Bank of Papua New Guinea

c.c. Mr. Robert Nicholl, Executive Director for Papua New Guinea
Mr. Krishna Srinivasan, Director, Asia and Pacific Department

Attachment I. Memorandum of Economic and Financial Policies

A. Economic Developments and Outlook

1. **The Papua New Guinea (PNG) economy has been resilient since 2021, supported by steady growth in the non-resource sector.** Real non-resource gross domestic product (GDP) growth has been strong since 2021 (3.8 percent in 2021, 5.2 percent in 2022, and 4.1 percent in 2023), thanks to the reopening of the economy and recovery in the services sector. Real resource GDP growth has been volatile; in 2023, it was slightly negative at -0.4 percent driven by lower-than-expected growth in the mining sector reflecting lower gold production despite higher-than-expected output in the oil and gas sector. Overall, real growth is estimated to have moderated in 2023 to 2.9 percent from 5.2 percent in 2022. After falling to 1.4 percent in 2023 Q2, driven by fiscal support and lower imported inflation, headline inflation started an upward trend, reaching 2.2 percent in 2023 Q3 (year-on-year) and 3.9 percent in 2023 Q4. The Kina Facility Rate (KFR) was reduced from 3.0 percent to 2.5 percent in November 2023, aligning it with the 7-day Central Bank Bill (CBB) rate, and further reduced to 2.0 percent in February 2024 to signal support for economic activity following the civil unrest that affected businesses, at a time when we assessed inflation as moderately subdued.

2. **Excluding expected new resource projects, real growth is expected to strengthen to 4.6 percent in 2024, while inflation remains on a moderate upward trend.** The expected pickup in growth in 2024 is driven by a rebound in the resource sector activity (5.3 percent) driven by the reopening of Porgera gold mine in 2023 Q4. End-of-period headline inflation is projected to be 5.0 percent in 2024, as the base effect of our fiscal package fades and as the gradual depreciation of the exchange rate against the USD continues. This will be moderated by lower imported inflation due to the appreciation of the USD against other currencies. To keep inflation in check, the Bank of PNG (BPNG) has announced in the March 2024 Monetary Policy Statement (MPS) that the monetary policy stance would be tightened over the following six months.

3. **Over the medium term, we expect growth to be sustained on the back of higher private investment, supported by the government's Poverty Reduction and Growth Strategy (PRGS).** The economy is projected to grow at an average 3.1 per cent annually, as mining production returns to normal and the non-resource sector is expected to grow at 4.0 percent, supported by increased production in the agriculture sector, by infrastructure investment – including the Connect PNG program, and by private sector investment.

4. **We recognize that the external environment is uncertain but there are both downside and upside risks to the outlook for growth, exports and the fiscal picture.** Downside risks largely stem from a sharp downturn in our main trading partners, tighter global financial conditions and exposure to natural disasters and climate change. Further political and social instability could undermine the implementation of our reform agenda and lead to a deterioration of our business climate. However, we have been conservative in our current projections by excluding large extractive sector projects in the pipeline and with a high probability of approval. These projects would have a

large positive impact on growth, investment, and, in the medium term, on exports and fiscal revenues.

B. The Government's Medium-Term Economic and Financial Reform Program

5. PNG continues to face large developmental and financing needs. Poverty remains high, with most of our people living in rural areas, with limited access to basic infrastructure and services. We urgently need to invest in basic infrastructure, particularly power, utilities and transport links, as well as in the provision of critical social services such as education, health care and security. However, we also face constraints that necessitate continued reforms. Our public debt had been increasing even before the pandemic, rising from K8 billion in 2012, to K34 billion in 2019, with an attendant increase in payment arrears. This was worsened by the COVID-19 pandemic, which led to a major reduction of 20 per cent in domestic revenues. A 13-year fiscal reform plan has been put in place to reduce budget deficits and public debt ratios. This calls for hard choices as we seek to direct our resources to where the needs are greatest, namely addressing gaps in the delivery of critical social services, closing the infrastructure deficit, enhancing financial development and inclusion and strengthening the business climate to encourage investment and growth. Over time, progress in these areas will be the most durable way to reduce poverty and improve inclusion.

6. Our structural reform agenda is geared to preserve macroeconomic stability, foster sustainable growth and address our development needs. To tackle long-standing impediments to poverty reduction and growth, in line with our PRGS, we will prioritize continuing budget repair, strengthening debt sustainability, ensuring growth in social spending to increase provision of service, addressing FX shortages and strengthening the overall governance framework in PNG.

Objectives And Performance Under the IMF-Supported Program

7. The Extended Credit Facility and Extended Fund Facility (ECF/EFF) arrangements approved in March 2023 are enabling us to make progress on our reform agenda, as outlined in the PRGS, to ensure sustainable growth and poverty reduction especially for rural areas. The program aims to ensure that we:

- Continue to progress our program of budget repair with the aim of strengthening domestic revenue mobilization, improving the quality and composition of public expenditure, lowering our fiscal deficit and debt to meet the requirements of our Fiscal Responsibility Act (FRA), move towards a budget surplus by 2027, and strengthen overall debt sustainability;
- Continue on our program of foreign exchange repair, including further modernization of the governance and operations of the BPNG, thereby allowing us to durably address foreign exchange (FX) shortages and reinstate the convertibility of the Kina; and
- Strengthen the overall governance framework in PNG by operationalizing the Independent Commission Against Corruption (ICAC) and setting in place a program to improve our AML/CFT

framework consistent with the Financial Action Task Force (FATF) standards, while ensuring that our financial and payments systems are able to facilitate increased efficiencies and financial deepening and inclusion.

The program would contribute to these domestic objectives through both agreement on a series of commitments with the Fund, which will galvanize domestic support by offering transparency on progress achieved, and Fund TA.

8. **We have continued implementing critical reforms in recent months, in line with our structural agenda and with our commitments under the program.** All quantitative performance criteria (QPC) and indicative targets (IT) as of end-December 2023 were achieved (Table 1). Out of nine structural benchmarks (SB) due, we have fully implemented six, including four in timely fashion, and partially implemented two with delay. Our achievements include the following, in chronological order:

- We aligned the rate of issuance of 7-day CBBs with the KFR (November 2023), which assisted in mopping up some of the excess liquidity and helped to improve the process of monetary transmission;
- We set the course for returning to a more flexible exchange rate regime by agreeing on the parameters for a crawl-like exchange rate arrangement (December 2023), which we set in motion on January 3, 2024;
- We levelled the playing field on the foreign exchange (FX) market by publishing all existing FX regulations and guidelines on the BPNG website (December 2023);
- We removed BPNG's requirement for the provision of a tax clearance certificate (TCC) for import-related intercompany loan repayments, leaving the responsibility of compliance checks with the authorized foreign exchange dealers, to ensure more timely access to FX for those important transactions (December 2023);
- We strengthened BPNG's governance by confirming the permanent appointment of the BPNG Governor (January 2024), appointed a Deputy Governor (April 2024) and filling all BPNG Board vacancies (April 2024). This structural benchmark, which was due by end-November 2023, was implemented with delay.
- We published contract data on COVID-19-related expenditure carried out under emergency procurement procedures on the government's website (March 2024). This structural benchmark, which was due by end-December 2023, was partially implemented with delay.
- Our National Executive Council (NEC) approved implementing regulations for the ICAC law, thus enabling its sound operationalization (May 2024). This structural benchmark, which was due by end-December 2023, was implemented with delay.
- We submitted amendments to the Central Banking Act (CBA) to Parliament, tackling important outstanding issues relating to the mandate, governance, autonomy, transparency and

accountability of the BPNG (June 2024). This structural benchmark, which was due by end-December 2023, was partially implemented with delay.

9. We propose to reset the deadlines for two key structural benchmarks relating to legal amendments. Significant progress was achieved in drafting the amendments to the Income Tax Act (ITA), with the aim to simplify and modernize the Act. The current draft has benefitted from extensive IMF technical assistance and advice. However, we were unable to finalize the draft by end-December 2023 as initially planned, and still need more time to prepare the Income Tax regulations, integrate inputs and views from a broad range of stakeholders and experts, including the IMF, and prepare appropriate communication about these important tax policies and administration reforms. The regulations will also need to go through a consultative process with stakeholders. We are working to finalize these draft amendments and new regulations, with the assistance of the IMF, and submit to parliament by end-December 2024 (**SB with a proposed reset deadline by end-December 2024**). In addition, while we have made progress in drafting the amendments to the Internal Revenue Commission (IRC) Act to establish a Board for IRC's oversight, which are due by end-October 2024, we will need extra time to align with our anticipated parliamentary calendar. We are actively working to finalize the draft amendments for the IRC Act and we are confident that they will be submitted to Parliament at the time of the 2025 Budget discussion (**SB with a proposed reset deadline by end-December 2024**).

10. We are on track to meet the other structural benchmarks which were set at the time of the first review of the ECF/EFF arrangements and due in the coming months. The Internal Revenue Commission (IRC) has finalized a draft initial worksheet of output-based key performance indicators to enhance revenue administration and increase its organizational productivity. We have made progress in cleansing payroll records in the AscenderPay IT system, completing the exercise in the Port Moresby area. Lastly, we are putting the final touches in setting up a new inter-agency working group on external sector statistics, spearheaded by the BPNG, to improve consistency with statistics from other sectors.

C. Government Policies Under the IMF-Supported Program

Fiscal Policies

11. Consistent with our budget repair strategy, we have sustained a fiscal adjustment of 0.9 percentage point of GDP in 2023, a slight overperformance relative to program targets. As detailed in our 2023 Final Budget Outturn report,[1] our fiscal deficit in 2023 stood at K4.8 billion (4.3 percent of GDP), slightly lower than the program ceiling (K4.9 billion, QPC).

- **Total revenue and grants** underperformed (-K0.6 billion) relative to our supplementary budget forecast. We recorded a significant overperformance of tax revenue (K1.3 billion), largely driven by higher collections of non-resource tax revenue, particularly goods and services tax and

[1] https://www.treasury.gov.pg/2023-budget-outcome-report

personal income tax. Non-resource tax revenue collection increased to K13.7 billion, exceeding the indicative target in the program (K12.7 billion, IT). On the resource revenue side, corporate mining and petroleum taxes (MPT) over-performed (+K0.9 billion), due to higher LNG export, reduction in Allowable Capital Expenditure (ACE) by 15 percent on average and lower depreciation cost from ACE during the last 3 years resulting in free cash flow and higher taxable income. However, this was more than offset by lower dividend payments from the resource sector (-K0.6 billion), other non-tax revenue (-K0.4 billion) and grants (-K0.9 billion).[2] Relative to 2022, total revenue and grants increased by K1.3 billion (1.1 percentage point of GDP).

- In line with our strategy to contain spending, **total expenditure** only slightly increased by K0.2 billion relative to 2022 (0.2 percentage point of GDP), with increases in transfers to other government units (K1.3 billion), compensation of employees (K0.4 billion) and interest payments (K0.2 billion) largely offset by lower spending in goods and services (-K0.6 billion) and lower capital spending (-K0.8 billion). We overshot our indicative target on social and other priority spending (K4.8 billion), above the program indicative target (K3.9 billion, IT).

12. In 2024, we intend to continue our consolidation effort, in line with our medium-term budget repair strategy. For 2024, our deficit target under the IMF program remains unchanged at K4.8 billion (3.9 percent of GDP). This corresponds to a consolidation effort of 0.4 percentage points of GDP relative to 2023. However, relative to the first review, we have revised up both our revenue and expenditure forecast for 2024 by 0.2 percentage points of GDP, in light of the higher-than-expected 2023 tax revenue outturns, global commodity price developments and expected robust economic activity. Overall, revenue is expected to increase relative to 2023 by 0.4 percentage point of GDP, driven by a moderate increase in non-tax revenue and the one-off collection of corporate income tax from the settlement of a 2022 legal dispute between the government and two companies, while MPT is expected to decrease from record-high levels. The 2024 Budget adopted a number of revenue measures aimed to enhance administrative efficiency, reduce the compliance burden for taxpayers and revenue administrators, and improve revenue collection for the Government in 2024 and onwards. This includes making permanent the K20,000 tax-free threshold for Personal Income, making permanent excise tax on the Second Tier Tobacco, reducing the Log Export Tax to 50 percent, and reducing import duty on intermediate and basic household products. Non-tax revenue is projected to slightly increase; final determinations owed by agencies under the Non-Tax Revenue Administration Act (NTRA) and the adoption of clear dividend policies for state-owned enterprises (SOE) and state entities could however help yield additional non-tax revenue (estimated at about K1.0 bn)[3] relative to program forecasts. On the expenditure side, expenditure-to-GDP is expected to increase by only 0.1 percentage point relative to 2023. We will continue to

[2] Lower donor grants outcome as reported in the 2023 FBO is attributed to delay or non-reporting on part of some of the donor partners.

[3] The upside is estimated at about K0.5 bn regarding dividends, and another K0.5 bn regarding the implementation of the NTRA.

rationalize current spending while preserving priority social spending, in line with the 13-year plan objective of a balanced budget by 2027.

13. We remain on track to achieve a balanced budget by 2027. This will be supported by domestic revenue mobilization efforts and enhanced expenditure efficiency, reprioritizing spending in favor of poverty reduction and sustainable development. This will put public debt firmly on a downward trajectory, reducing risks.

14. We recognize our fiscal targets are ambitious but are confident they are reasonable and achievable. We maintain an indicative target (IT) on non-resource tax revenues, which ensures our focus on revenue mobilization throughout the program. We recognize that our fiscal framework hinges on our ability to carry out successful tax policy and revenue administration reforms that are in line with our new Medium-Term Revenue Strategy (MTRS). We will publish the MTRS and will accelerate its implementation, including adopting some of the revenue measures in the 2025 Budget. Our resource tax and non-tax revenue are subject to significant volatility, as there is uncertainty around mining and petroleum taxes (MPT) and the amount of dividend payments expected to be remitted in 2024. To remain conservative, we target a sharp decrease in MPT and we have significantly revised down our dividend collection expectations relative to the first review of the program. In the event dividend payments or other revenues overperform, we will use the additional amount to accelerate the clearance of the stock of domestic payment arrears, increase priority spending, and reduce the deficit. In the event we experience significant revenue shortfalls, we will undertake expenditure adjustments to meet our fiscal deficit target. As part of the 2025 Budget preparation, we are identifying contingency measures consisting of spending items that could be reappropriated and programs that could be deferred, such as lower-priority investment projects and goods and services; we will communicate these measures to the Fund.

15. We intend to accelerate domestic revenue mobilization, through the implementation of our new MTRS, as well as the adoption of major legislative changes by the end of the year. The MTRS is intended to guide our revenue policies and administration reforms through to 2027, serving as a reference for reform conditionalities for future program reviews. Under the MTRS, reforms are aimed at broadening the tax base by reducing distortions, and addressing the policies that hinder the effectiveness and efficiency of tax compliance and services. The MTRS has identified several key legislative reforms to enhance tax and non-tax systems, among which are the implementation of the 2017 Tax Administration Act and the promulgation of a revised Income Tax Act (ITA). The ITA rewrite is intended to simplify and modernize our tax system, close loopholes that were not envisaged when the original legislation was prepared and broaden the base in some areas. The finalization of the draft has been delayed. We now expect that the proposed amendments will be submitted to Parliament around the time of the 2025 Budget discussions (**SB with a proposed reset deadline by end-December 2024**). The amended ITA, if successfully passed in Parliament, will now enter into force in early 2026, giving time for the IRC to prepare for implementation. We will secure all necessary technical assistance on the preparation of the necessary regulations to provide predictability to stakeholders.

16. **The modernization of the IRC and Customs' operations will also contribute to enhancing revenue administration.** The IRC is finalizing, in coordination with the IMF, an initial set of key output-based performance indicators to better monitor its administration and related revenue gains (**ongoing SB by end-May 2024**). In addition, to enhance IRC's accountability, we are preparing amendments to the Internal Revenue Commission (IRC) Act 2014 to establish a Board for IRC's oversight (**SB with a proposed reset deadline by end-December 2024**). Fund TA on setting up a governing Board for the IRC will support our efforts in that respect. We have made a request for an updated Tax Administration Diagnostic Assessment (TADAT) which will help us measure progress in tax administration systems, processes and institutions since the previous assessment in 2019. PNG Customs Service aims to address tax evasion/smuggling, improve customs declaration procedures, intelligence gathering and analysis, risk management, customs valuation; and post clearance audits. In order to do this, PNG Customs Service needs to fully transition to becoming an independent authority. This should be followed by targeting policies such as maximizing the use of technology, increasing human resource, effective customs enforcement and strengthening excise administration with the aim of increasing revenue collection.

17. **While there are pressures to increase spending, we commit to maintaining our plan for budget repair, improving spending efficiency and reducing the overall spending envelope in real per capita terms.** Historic under-budgeting for personnel emoluments (PE), which reached 25 percent in 2018 prior to our budget repair program, was significantly improved during the program. In 2023, PE spending was broadly in line with budget targets, the first time for many years. We intend to continue to ensure that salary budgets are realistic and focused on service delivery in future years. We are increasing funding to allow for a greater number of police, teachers and health care workers as part of the operation and maintenance costs stemming from new capital investment. This process is being managed by decreasing the total PE budget for all other agencies in 2024, compared to 2023, coupled with the payroll reform efforts that include upgrades to the payroll system and ensuring staff are recorded under the correct appropriations. Goods and services expenditure on priority social programs included in the operating budget have been ring-fenced, as have long-term fixed commitments like rentals, utilities and other items that cannot be easily reduced in the year, to avoid the risk of arrears build up. As for capital expenditure in 2023, GoPNG spending increased, while donor- and concessional loan-funded spending decreased. Over the next several years, we plan to grow capital spending, with an emphasis on funding infrastructure to connect PNG. We have also requested a Public Investment Management Assessment (PIMA) to the IMF to help identify key reform priorities to enhance the efficiency of our capital spending and increase our infrastructure outcomes.

18. **We intend to continue modernizing our budget preparation process, bringing in new reforms to aid in setting policy in the budget.** We substantially updated the expenditure Appropriation Acts for the 2024 Budget to increase the Treasurer's ability to make adjustments to agency spending by improving the Acts' clarity and institute achievable reporting requirements. This aims to avoid overruns. We also brought in the medium-term fiscal framework discussions into the Strategic Budget Committee (SBC) to help guide budget setting within a top-down limited framework. In advance of 2025 Budget preparations, we have conducted a review of the SBC process

and are suggesting to improve the alignment of the budget allocation process with Government priorities. We have also instituted new guidelines for approving, executing and monitoring capital projects. To further strengthen the policy focus of the budget, enhance spending efficiency and provide early high-level guidance on the orientation of the budget, we have requested IMF technical assistance on strategic budgeting. Lastly, we have requested IMF technical assistance on tax modelling to enhance the reliability of our revenue forecasts in the budget.

19. Based on the findings of recent reviews, we have made headway in enhancing the management and efficiency of payroll expenditure and strengthening human resource (HR) compliance. We have started implementing the findings of the 2022 Staffing and Establishment Review (SER) for all public sector employees, including as the drafting of the HR policies and system controls. We have also validated the final report of the SER for teachers. We have started implementing reforms, in particular identifying 116 teachers over the retirement age and budgeting funds for their retirement. In addition, we have made progress in our current data cleansing exercise over current payroll IT records in AscenderPay (**ongoing SB by end-August 2024**). The process has been completed for national agencies in Port Moresby, enabling us to attach a National Identification (NID) number to each employee for 31 out of 43 national agencies. This excludes teachers, health workers and discipline forces in the Provinces. The control on "one position, one person, one pay (1PPP)", has been effected and is switched on across all sectors on the payroll for current positions. Consistent with 1PPP, it is a requirement for all new hires to have an NID number before paid through the government payroll. Furthermore, access for new hires is now centralized through Department of Personnel Management as the employing agency for the government. We recently held a Data Cleansing Forum for government agencies to receive stakeholder feedback and solicit submission of required source documentation for cleansing and desktop reviews. Given the difficult task ahead to cleanse the data across remaining agencies, including in the Provinces, we will formulate an action plan which will capture any capacity gaps, both in terms of financial and human resources We will also carry out a desktop analysis, which is a critical foundation for the data cleansing exercise to take place in the weeks ahead. We will allocate appropriate resources towards this exercise.

20. We remain committed to actively verifying and clearing Government arrears accumulated in previous years. The Arrears Verification (AV) program established in January 2020 allows us to gradually clear the stock of arrears on goods and services. Since its creation, and as of April 2024, the AV Committee has received submission of claims amounting to K6.3 billion, and successfully verified K3.1 billion and paid K1.4 billion. The remaining unverified stock of claims on goods and services under the AV program is K3.2 billion. We also remain committed to increasing our budget allocation to the AV program in future initial and supplementary budgets, should revenue over perform, in addition to the K300 million appropriated in the 2024 Budget. We have also been clearing historic salary arrears, particularly on retirements and allowances. By the end of last year, we had retired 2,682 retirees at a cost of K377 million. A total of K72 million worth of Superannuation liability was provided by Nambawan Super Limited (NSL); the government has been actively working on this through the annual retirement program, normal employee exit payments and through enforcement and compliance actions by NSL on the defaulting agencies. Finally, through our lease management system, we have been able to better monitor and reduce the stock of rental and utilities arrears. The current stock of rental arrears is K260 million.

21. We are also committed to preventing new arrears through enhanced commitment controls and improved IT functionality. As of end-December 2023, we have not accumulated further payroll arrears and have continued paying domestic debt on time (IT). We remain committed to doing so going forward. The government is now ensuring to pay out the current retirees to avoid incurring personnel emolument liabilities. The government has allocated funding for this purpose in the 2024 Budget and plans to provide continued support in the future. Of the 165 agencies, most of the allowances of agencies have been implemented in the payroll system. The only outstanding issue is the teachers 3% salary increase which is currently being discussed by the central agencies and is expected to be implemented in the 2nd quarter of this year. A budget of K125 million has been allocated for this purpose. We are also actively working to prevent new domestic arrears on goods and services from arising by enhancing the monitoring of expenditure commitments. Based on the findings and final recommendations of recent IMF technical assistance on expenditure controls, we are preparing a concept for a commitment accounting framework, which will also comprise a contract management system to help enhance the monitoring of multiyear commitments. We plan to modernize our IT system through a three-stage strategy to enable more automated, timely and effective monitoring of budget execution. This will include moving the IFMS system to the cloud (Phase 1), upgrading to a new version of the software for the IFMS system (Phase 2), and studying finance solution requirements for a broader reform of the government financial IT systems (Phase 3). We have already requested follow-up technical assistance from the IMF on these topics, and we are committed to setting concrete structural benchmarks starting from the third review of the program.

22. We intend to also reduce our reliance on trust accounts to improve expenditure controls and management. Under our current decentralized framework, payments for a large number of government projects are being carried out through trust accounts in the BPNG and commercial banks, funded by transfers appropriated in the government budget. While we actively monitor and report cash movements on these accounts, and while we have reduced their balances in half in 2023 (consolidated balance of K0.5 billion at end-December 2023, against K1.0 billion at end-December 2022), these accounts create challenges for the government's active management of cash and for BPNG's liquidity management. The remaining COVID-19 emergency trust account balances are now small (remaining balance of K35 million as of end-December 2023, against K410 million as of end-December 2022). We will close them by end-September 2024. The pertinence of other trust accounts and their maintenance outside of the central bank will be reviewed in the context of the upcoming development of a full-fledged treasury single account.

23. We are committed to modernizing our cash management practices, including by developing a Treasury Single Account (TSA). The passage of the Non-Tax Revenue Administration Act (NTRA) has already helped centralize statutory bodies' revenues into the Consolidated Revenue Fund at the BPNG. We have received technical assistance on cash management from the IMF in March 2024 and we will rely on the upcoming final report, as well as on follow-up IMF technical support requested in April 2024, to formulate a strategy for the implementation of a TSA. We are committed to setting concrete structural benchmarks starting from the third review of the program.

24. We have made notable progress in strengthening debt management. This includes the successful implementation of the Guarantee Policy and its corresponding Guidance note and tools. Presently, efforts are concentrated on several areas. First, the upgrade and migration of the Commonwealth Debt Recording System to Meridian was completed. Simultaneously, the review of the on-lending policy is completed and has received approval from the NEC. Finally, we have completed a draft of the first annual Debt Bulletin and intend to publish it, containing debt statistics as of the close of 2023, by 2024 Q3.

25. We will continue to strengthen our debt recording and management capacity and maintain a prudent financing strategy to reduce costs and lower risks. This strategy has included the substitution of costly financing with concessional financing from multilateral and bilateral partners, which has improved PNG's debt profile. Despite the deviation in 2023, the strategy will continue with securing more concessional financing from our multilateral and bilateral partners. We met the present value limit on new public external debt contracted for 2023 by a margin close to US$410 million (QPC), partly due to delays on the processing of some loans. We remain committed to carefully monitoring and controlling risks by maintaining a present value limit on new public external debt contracted in 2024 and 2025 (continuous QPC). We also continue to pursue the goal of non-accumulation of new external payment arrears (continuous QPC). More generally, we will continue to ensure that our borrowing plan will be closely linked to the financing needed to execute our budget, following a transparent borrowing program and on-budget spending. Our future borrowing programs –for 2025 and beyond– will aim to lower the risk of debt distress, which will be closely guided by the Debt Sustainability Analyses undertaken by the IMF and World Bank, and our upcoming Medium-Term Debt Strategy (Debt Strategy). The Debt Strategy is intended to be completed and submitted for NEC approval by end of second quarter. As for the US$500 million Sovereign Bond maturing in 2028, initial discussions on the redemption plan have commenced with some possible options including Debt Swaps, funding by international partners, and devising an action plan to accumulate needed financial resources. On the back of IMF TA, we aim at further developing debt management capacity, with the objective of expanding debt coverage to include SOEs.

Monetary and Exchange Rate Policies

26. We have started implementing our roadmap for monetary policy and exchange rate reform under the program. Controlling cost of living and preserving price stability is at the heart of our monetary policy framework, contributing to maintaining macroeconomic stability and to sustaining economic growth. Ensuring kina convertibility and an appropriate exchange price for PNG's exports and imports is at the heart of our foreign exchange policy plans. Our roadmap, which was approved last year, contains a series of reforms to be undertaken by the BPNG to strengthen monetary policy and exchange rate policy frameworks and operations and to aid the communication of monetary policy to the public. It also contains measures to improve government cash management and to reinforce inflation forecasting and monitoring. The roadmap is an important commitment that will continue to serve as a reference for reform conditionalities for program reviews. We have requested IMF TA to help with reform implementation, consistent with the sequencing of the roadmap.

27. Since January 3rd, 2024, we have been implementing a crawl-like exchange rate arrangement to support the gradual return to kina convertibility by the end of the program. Under this arrangement, the USD/PGK exchange rate has gradually depreciated by 1.2 percent over the first three months of 2024 – adding to the 5.5 percent depreciation observed between April and December 2023. We agreed on the key parameters of the framework for the arrangement in December 2023 (**SB met**), in coordination with the IMF, noting that judgements will need to be made in the application of the numerical results of any formula. This includes: the use of the USD as the initial anchor currency for the calculation of the crawl; the definition of a formula for a rate of crawl, which relies on both the latest estimate of the real misalignment of the kina and inflation differentials with major trading partners; a two percent-wide crawling band for the nominal exchange rate; and a biannual pace for the review and update of the rate of crawl. We have also formulated and finalized the modalities for FX interventions to support the arrangement, and started implementing the multiple-price FX auction mechanism to bring more transparency, allowing for a more competitive interbank market and to better match with the distribution of essential FX orders. We have communicated details on the new arrangement to the wider public as part of our September 2023 Monetary Policy Statement (MPS) and the March 2024 MPS; we will ensure appropriate communications of planned reforms in a timely manner to help smooth transition. This arrangement is transitional, helping us move towards more flexibility. We will treat as a high priority fully resolving the misalignment of the kina over the program and restoring kina convertibility, which, alongside other efforts to attract foreign investment and to improve the business environment, will help enhance the competitiveness of our exports, including in the agricultural sector, and thus increase rural incomes and improve living standards.

28. The BPNG will implement appropriate policy measures to help keep inflation expectations anchored and ensure consistency with our exchange rate arrangement. Despite the active gradual depreciation against the USD, and despite PNG's inflation rate being lower than most trading partners in 2023, the real overvaluation of the kina has remained roughly stable, due to the appreciation of the USD against the currencies of our major trading partners. Moving towards kina convertibility will hence require further adjustment in the exchange rate to ensure its pricing reflects market conditions more accurately (and over time may involve a shift to crawling against a basket of currencies, to provide greater certainty about the extent of the effective adjustments). As recommended by the Monetary Policy Committee, the BPNG Board approved a tightening monetary policy stance for the April-September 2024 period in its latest MPS (March 2024), through an upward adjustment to the KFR, as well as an increase in the cash reserve requirement ratio (CRR) applied to commercial banks. The timing of these adjustments will be announced in due course, consistent with our monetary policy framework. The Bank has commenced the increase in the policy rate (KFR) by 50 basis points to 2.5 percent and increased the CRR by 100 basis points to 11 percent, both effective in May 2024.

29. To ensure a smooth transition to kina convertibility, we remain committed to a gradual elimination of FX rationing measures. To alleviate FX shortages and to help clear essential payments, we have continued intervening actively on the FX market. In 2023, we sold US$1.6 billion to authorized foreign exchange dealers, above the indicative floor of the program (IT). As of end-March 2024, we have provided a further US$0.3 billion to the market, helping to address essential orders and the backlog of import orders; the total stock of import orders older than two months stood at K46 million, significantly lower under the program's indicative floor (IT). Yet, the economy still faces a persistent mismatch between FX supply and demand; in addition, there is large pent-up FX demand from dividends waiting to be repatriated as well as portfolio external investment from domestic superannuation funds. To avoid a disorderly transition, and as the exchange rate approaches its equilibrium level, we will proceed with gradual removal of the FX rationing measures. We have streamlined the requirements for tax clearance certificates on all import-related activities funded by inter-company loans, as well as on BPNG currency purchases and on government payments. As a starting point, we have published all regulations and directives regarding the FX market on the BPNG website (**SB met**) and ensured that BPNG does not require a tax clearance certificate to include FX orders related to intercompany loans obtained for import payments in the orderbook (**SB met**). We are also working to develop a government-wide strategy to increase net FX inflows to the economy and enhance PNG's competitiveness and attractiveness for foreign direct investment.

30. We will build on the successful implementation of the fixed rate full allotment (FRFA) to further enhance liquidity management and improve monetary transmission. In late August 2023, we have modified our open market operations framework by carrying out our first FRFA auction. This helped mop up on average half of the excess liquidity, though the level of precautionary reserves stays elevated. To enhance the effective transmission of monetary policy, we have aligned the rate of issuance of the 7-day central bank bills with the KFR (**SB met**). We will ensure that the participation in FRFA auctions is restricted to deposit-taking financial intermediaries that are required to maintain reserves and are supervised by BPNG. In line with our roadmap and the international good practice on liquidity management, we will introduce a mid-rate corridor on the KFR, bounded by standing overnight deposit and borrowing facilities at the discretion of the financial institutions and priced at ±150 basis points around the KFR (**new proposed SB by end-August 2024**). We will also enhance the cash reserve requirement framework by introducing partial reserve averaging and extending the lagged maintenance period (**new proposed SB by end-August 2024**). These measures will help to further reduce excess liquidity and alleviate the commercial banks' need for higher precautionary reserves, thereby reducing the liquidity risk premium and improving liquidity management and monetary transmission. Lastly, the BPNG is fine tuning other available monetary policy tools to complement the 7-day CBB in mopping up excess liquidity.

31. To support reform implementation and ensure the independence of the BPNG, we have appointed a permanent Governor and a permanent Deputy Governor and filled all Board vacancies at BPNG. The Governor was appointed in January 2024, the first female in the role. Despite facing delays due to the need to ensure appropriate board composition for future reforms, all BPNG Board vacancies were eventually filled in April 2024. This allowed to reach a quorum in important Board decisions, including the appointment by the Board of a Deputy Governor in April 2024 (**SB implemented with delay**). These recent appointments have helped reinforce BPNG's governance and will ensure appropriate steering of the implementation of the Roadmap.

32. We remain committed to reinforcing the financial independence, mandate and autonomy of the BPNG. We continue to avoid monetary financing, as illustrated by our compliance with the QPC floor on the BPNG's gross credit to government. While we faced delays in finalizing our draft amendments to the Central Banking Act (CBA), we have submitted them to Parliament on June 5, 2024. These amendments, prepared in consultation with the IMF, are addressing issues related to mandate, governance, autonomy, transparency, and accountability of the BPNG (**SB partially implemented with delay**). This includes the ranking of the mandates of the BPNG with price stability as the BPNG's primary objective, the establishment of a separate Monetary Policy Committee for monetary policy formulation, and clearer limits on the provision of advances to the government. We expect that these amendments will be discussed during the September 2024 parliamentary session. We also remain committed to progress in implementing the safeguards assessment recommendations, as per timelines indicated in the assessment report. This includes for example the above-mentioned legislative reforms, the preparation of Board and committee charters and the timely publication of financial statements. We have published BPNG's audited financial statement for FY22, and we remain committed to restoring timeliness of publication going forward, beginning with financial statements for FY23.

Financial Sector Policies

33. Financial inclusion is critical to PNG's development and should be balanced with preserving financial stability. In April 2023, the government published its financial inclusion strategy for 2023-2027. It provides a roadmap for PNG to accelerate financial inclusion efforts through collaboration with various stakeholders, international development partners and financial institutions, with the aim to reach 2 million unbanked population by 2027, including 50 percent of women, in particular in rural areas. Key strategic objectives include building financial competency through financial literacy and education, strengthening the regulatory environment, developing efficient digital infrastructure, promoting effective public and private sector engagement, developing an enabling environment for inclusive green finance and deepening financial service delivery through harnessing new emerging technology. We are currently rolling out the strategy to provincial levels and are planning training programs, both in-person and online, to support this rollout. We recognize that financial inclusion efforts need to be balanced with financial stability and, not giving up hard-won gains in strengthening our AML/CFT framework. The IMF's upcoming financial sector stability review (FSSR) will help identify key reform priorities to ensure the soundness and resilience of our financial sector. The process for the FSSR was delayed due to the social unrest in January 2024. The mission is now expected for July 2024, with a full report and recommendations expected for the second half of 2024.

34. We are accelerating our efforts to enhance our AML/CFT framework, in line with the Asia/Pacific Group on Money Laundering (APG)'s recommendations. The APG mutual evaluation onsite visit took place in October 2023. We have held our last face-to-face meetings with the APG team in March 2024 and are now providing final comments ahead of the discussion of our mutual evaluation report at the July 2024 APG Plenary. The BPNG's Financial Analysis and Supervision Unit (FASU) has been leading this process, in coordination with the Department of Justice and Attorney General. It continues to monitor and enforce compliance with PNG's AML/CFT legal and regulatory framework, and to mobilize government agencies through the National Coordinating Committee (NCC) on AML/CFT. The 21 government agencies sitting on the NCC, which provides oversight on AML/CFT reforms, have made a strong commitment to implement the recommendations highlighted by the APG assessment team. These recommendations include reviewing and updating ML/TF risk assessments, establishing information sharing arrangements between law enforcement agencies, improving timely access to information, enhancing the quality of suspicious transactions reporting, applying a risk-based approach in monitoring and supervising AML/CFT compliance, investigating and prosecuting financial crimes, asset forfeiture and confiscation, and amending the legal framework for beneficial ownership. FASU continues to strengthen efforts to effectively supervise financial institutions and designated nonfinancial businesses or professions by conducting AML/CFT risk assessments and risk-based on-site and off-site inspections.

Governance

35. The Independent Commission Against Corruption (ICAC) is making fast progress towards delivering an effective anti-corruption framework, which will support inclusive economic growth. To help make the ICAC a fully operational institution in 2024, we have significantly ramped up its planned funding, from K10 million in 2023 to at least K47 million in 2024. This is sufficient to help the ICAC to become operational quickly, including recruiting an appropriate number of staff (95 expected by end-2024, against 18 in July 2023), complementing domestic skills with global expertise, establishing new premises, meeting legal costs and building its forensic capabilities. We are committed to sustaining an appropriate level of funding for ICAC going forward. Key implementing regulations to the ICAC law have been adopted by the National Executive Council in May 2024 (**SB implemented with delay**), to specify processes for the ICAC's preventive, investigative and prosecutorial mandates, and to ensure sharing of information across relevant agencies. Consistent with the law, the ICAC will appoint its oversight committee, effectively bringing its governance in line with best international practice (**new proposed SB by end-September 2024**). The ICAC has adopted its Code of Conduct and its investigations manual and will soon complete its intelligence manual and commission hearing manual. It has been put in charge of the review of the National Anti-Corruption Plan of Action 2020-2025 and of the preparation of its successor. It has invested heavily in upgrading its IT system towards more secure solutions. A new case management system has been acquired and will be rolled out this year. The ICAC's revamped website has been launched recently, allowing for complaints to be lodged and providing information on the ICAC's operations, including its engagement and prevention programs. To enhance cooperation with relevant anti-corruption bodies, the ICAC has been added as a member of the NCC in March 2024. In addition, the ICAC is working towards adopting memoranda of understanding with the BPNG's Financial Analysis and Supervision Unit (FASU), the Police, the Ombudsman's Office, the Auditor General's Office (AGO) and the Public Prosecutor's Office in the coming months, targeting to sign them with at least four of these five institutions by the end of the year (**new proposed SB by end-December 2024**).

36. We have made progress in strengthening transparency around procurement. In March 2024, we have posted on the government procurement website[4] details of all major COVID-19 related contracts (over K100,000) procured since April 2020, including the names of the entities which were awarded the contract and their major shareholders; however, beneficial ownership could not be published due to its unavailability (**SB partially implemented with delay**). Overall, these contracts represented a total amount of about K180 million. While this publication was accomplished with a three-month delay, it went beyond our commitment under the program to publish data for years 2020 and 2021. By also including all major contracts procured since 2022, the publication has thus ensured transparency and accountability over major contracts entered into under emergency procedures. For contracts made under normal procurement processes, we will continue to account for these under the audit procedures undertaken by the AGO. We will ensure that the AGO is appropriately staffed and funded to carry out its external audit mandate. Going forward, we are committed to work towards the publication of all public procurement contracts to further enhance fiscal and financial transparency. We are also looking forward to benefitting from IMF advice on how to strengthen procurement procedures for public investment, as part of the recently requested PIMA.

37. To enhance fiscal and financial transparency, we remain committed to extending the coverage of GFS reporting, and improving consistency of statistics, particularly for the external sector. We have been enhancing our GFS reporting, with Fund support, including by releasing more comprehensive GFS tables in the budget book, and developing fully GFS compliant budget estimates volumes. We are now working to better reflect the fiscal positions of the provincial and SOE sectors in the budget documentation. We continue to improve the availability of fiscal information; for example, we have already updated, and passed through Parliament, the expenditure Appropriation Acts to commit to publish quarterly reports of adjustments to budget allocations made by the Treasurer through the year. Following recent Fund TA on external sector statistics, we continue to improve the newly published data in accordance with the 6th Balance of Payments Manual (BPM6). To further improve the consistency of external sector statistics with other official statistics, we will initiate an inter-agency working group on external sector statistics, including representatives from the NSO, Treasury Department, PNG Customs Service and the BPNG (**ongoing SB by end-June 2024**). We are also laying the work to produce international investment position (IIP) statistics. Lastly, the statistics module of the FSSR will further help the BPNG in improving financial statistics.

38. We continue improving the governance of SOEs and state entities. Since amending the legal and policy framework for SOEs with the support of the Asian Development Bank (ADB), we have strengthened their overarching financial and corporate governance. The timeliness of the publication of audited financial statements for SOEs has improved, and the appointment of SOE directors is now skill-based and more transparent, with an improved gender balance. There is however still room for

[4] https://npc.gov.pg/covid-19-procurement/

progress in these areas. In particular, we intend to continue improving the reliability and quality of financial information for SOEs, as well as the timeliness and publication of financial statements for state entities. Going forward, including with the continued support of ADB, we also intend to unify and enhance procurement practices across SOEs, continue strengthening financial transparency and accountability, pass dividend policies for SOEs and state entities through the National Executive Council, and improve the financial sustainability of SOEs while ensuring that Community Service Obligations are properly funded, where appropriate, and improving access to public services in rural, and most remote areas.

Social Protection and Poverty Reduction

39. Our Poverty Reduction and Growth Strategy (PRGS), the Medium-Term Development Plan IV (MTDP IV 2023-2027) was launched in January 2023. It was prepared and conceived as a roadmap for the Government, outlining its strategic policies aimed at achieving key developmental objectives which would all contribute to effectively reducing poverty. These objectives include growing our economy to K200 billion by 2030, doubling both domestic revenue and export proceeds, creating one million additional jobs, and improving the quality of life for all our people. The MTDP incorporates new policy, legislative and institutional initiatives to attain these objectives and progress the country's inclusive development. Key initiatives expected to contribute to alleviating poverty include reforms to reinforce the micro, small and medium enterprises sector, the continuation of the Connect PNG policy, the development of a national health insurance policy, enhancements to energy security policies, and the expansion of our education infrastructure. Our provinces and districts will also be expected to deliver minimum service standards through structural transformation in the provincial and district administrations.

40. We remain committed to meeting the most pressing needs of our people, particularly the most vulnerable. In 2023, spending directed to the education, health and law and order sectors was K4.8 billion, well above the program target (IT of K3.9 billion). Additionally, this figure does not even include spending on the Government Tuition Fee Subsidy (GTFS) scheme or teachers' salaries. GTFS supported over 2.2 million students across over 10,000 schools. Funding for the Tertiary Education Student Assistant Scheme assisted over 18,000 students and the Higher Education Loan Program supported over 13,000 access further studies. In 2024, we continue to redirect our expenditure to these priority sectors to increase the number of teachers, health workers and police. We intend to continue working with our development partners to make progress on strengthening our social safety net programs, delivering better public services to our rural population, addressing urban youth unemployment, improving labor mobility, removing barriers to employment and addressing urgent needs in child nutrition and preventing the spread of communicable diseases.

Climate Change

41. Papua New Guinea has vulnerabilities to climate change and needs to build resilience. We rely heavily on agriculture, especially at the subsistence level and for export, which remains vulnerable to shifts in the climate, flooding and extreme weather events. We are ranked 8th among countries for highest disaster risk in the world on the World Risk Report, 2020, that climate change will likely only exacerbate. Challenges persist in Papua New Guinea in understanding the scope of climate vulnerability given both a lack of study of localized historical and future climate conditions, and the limited social data. The World Bank in its 2021 Climate Risk Country Profile noted that hazards such as flash flooding, landslide, and coastal flooding are all likely to intensify. At the same time the population affected by river flooding is projected to double by 2030.

42. The Government is committed to a robust program to tackle climate vulnerability, and the long run impacts of climate change. We have recently amended the Climate Change Management Act to turn the Climate Change Development Agency (CCDA) as a regulatory agency, and we are in the process of appointing a National Climate Change Board to provide strategic guidance to climate policies. In line with our international commitments, the CCDA is actively preparing the implementation report on our enhanced Nationally Determined Contribution (NDC), which will serve as a basis for the preparation of our updated NDC in 2025. Our NDC commitments are conditional on financial support provided by the international community. We are hence working closely with partners to develop climate mitigation and adaptation programs through the Green Climate Fund and build on BPNG's recently produced Green Finance Policy. We have requested to the IMF a Climate Policy Diagnostic (CPD) and a Climate Public Investment Management Assessment (C-PIMA), which will provide us with a detailed overview of our climate policies and with recommended reform priorities; these diagnostics will be undertaken in June-July 2024. We have sought access to the Resilience and Sustainability Facility (RSF), which we propose to be assessed concurrently with the third review of the ECF/EFF arrangements, informed by these diagnostics.

D. Financing Strategy and Program Monitoring

Financing Strategy

43. The program helps us address an immediate balance of payments need, allowing us to engage with our other development partners and build the buffers needed to support a more flexible exchange rate system. The Fund program is a critical component in reinforcing the Government's commitment to sound macroeconomic policies and needed structural reforms. These policies lay the ground for durable and sustainable growth and allow us to reduce poverty and strengthen inclusion. Further, the program is an important signal to our development partners that PNG is on the path to macro-financial sustainability. More directly, financing from the Fund program allows us to address near-term balance of payments needs, allowing the Government to build and maintain the international reserve buffer needed to safely address the demand-supply mismatches in the FX market; and allow for an ambitious but non-disruptive fiscal consolidation path that preserves needed social spending.

44. To this end, we are targeting an international gross reserves level of US$3.2 billion (4.8 months of imports) by end-2026. Our net international reserves (NIR), that is reserves net of IMF financing outstanding, closed 2023 at US$3.3 billion, about US$640 million above the floor set for the December 2023 test date; we are now aiming at a US$2.05 billion target for end-2024 (QPC). This level of reserves considers the continued reduction of the backlog of FX orders and the expected external payment obligations. We estimate our external financing needs for the year to be US$812 million, of which 31 percent will come from disbursements under the Fund program. These disbursements will continue to be channeled toward budget support, thereby allowing us to continue executing spending at a reasonable cost. Moreover, given the possibility of facing delays in the disbursement of some budget support lending, we are requesting adding an adjustor to the NIR floor, conditional on external financing disbursements (see Para. 16 in the Technical Memorandum of Understanding).

Program Monitoring

45. Test dates and program reviews. In line with the normal practice for disbursements under a blended ECF/EFF arrangement, we follow a 6-monthly review cycle based on quantitative performance criteria outlined in Table 1. The third, fourth and fifth reviews will take place on or after September 18, 2024, March 18, 2025, and September 18, 2025. Accordingly, our next three test dates would be June 30, 2024, December 31, 2024, and June 30, 2025, respectively. Subsequent test dates will be set in future program reviews. Further, we propose the inclusion of additional indicative targets for the interim periods (assessment dates of September 30, 2024, and March 31, 2025) to help guide program implementation. Tables 1 and 2 outline our proposed quantitative performance criteria, indicative targets and structural benchmarks for the next 12 months. Detailed definitions of the quantitative performance criteria and indicative targets are provided in the attached Technical Memorandum of Understanding. Finally, we request for a waiver of applicability for the end-June 2024 performance criteria under the EFF arrangement due to the absence of final data at the time of this revision.

46. Data and information sharing, and program coordination. The Program Monitoring Committee is active and helps coordinate PNG's interactions with staff and the Fund. It holds frequent meetings with Fund staff, to appraise them of developments, provide updates on data and program performance and request assistance from the Fund; in addition, we maintain constant communication with Fund staff at a technical level, as needed. We have appointed program monitoring coordinators at the Treasury and BPNG to help ensure the timely transmission of comprehensive program-related data updates. Internally, the Committee, chaired by the Secretary of the Treasury, coordinates activities in PNG related to the program by bringing together the main stakeholders. In addition, we remain in close and frequent contact with the IMF Resident Representative on both program and other issues.

Table 1. Papua New Guinea: Quantitative Performance Criteria and Indicative Targets (2023-2025)

(In millions of Kina unless otherwise specified)

	2023						2024						2025	
	September			December			March			June	September	December	March	June
	Indicative target			Test date			Indicative target			Test date	Indicative target	Test date	Indicative target	Test date
	Approved	**Outcome**		Approved	**Outcome**		Approved	**Outcome**		Approved	Approved	Approved	**Proposed**	**Proposed**
A. Quantitative performance criteria [1]														
Fiscal deficit of the government [2] (ceiling, cumulative from the beginning of the year)	4,239	**4,007**	met	4,935	**4,805**	met	1,586	**1,434**	met	3,014	4,132	4,810	1,159	2,203
Stock of net international reserves of the BPNG (floor, US$ millions) [3]	2,082	**2,707**	met	2,650	**3,292**	met	2,500	**2,830**	met	2,350	2,200	2,050	1,988	1,925
BPNG's gross credit to government (ceiling)	2,400	**2,026**	met	2,400	**1,929**	met	2,400	**2,024**	met	2,400	2,400	2,400	2,400	2,400
B. Continuous quantitative performance criteria (ceilings) [4]														
New external payment arrears of the government (ceiling, US$ millions)	0	**0**	met	0	**0**	met	0	**0**	met	0	0	0	0	0
Present value of new external debt contracted or guaranteed by the government [5] (ceiling, US$ millions)	1,405	**114**	met	943	**531**	met	1,072	**0**	met	1,072	1,072	1,072	*530*	*530*
C. Indicative Targets														
Non-resource tax revenue of the government (floor, cumulative from the beginning of the year)	9,167	**9,649**	met	12,741	**13,720**	met	2,935	**3,075**	met	5,871	10,714	14,677	3,268	6,537
New domestic payment arrears of the government (ceiling) [6]				0	**0**	met	0	**0**	met	0	0	0	0	0
Social and other priority spending (floor, cumulative from the beginning of the year) [7]	2,817	**3,699**	met	3,866	**4,787**	met	525	**1,735**	met	1,575	2,958	4,059	550	1,650
BPNG provision of foreign exchange to authorized FX dealers (floor, cumulative from the beginning of the year, US$ millions)	900	**1,073**	met	1,200	**1,574**	met								
Stock of unmet import-related FX orders (ceiling)							150	**46**	met	125	100	75	50	25

Sources: Papua New Guinea authorities and Fund staff estimates.

[1] Quantitative performance criteria listed under A. and indicative targets listed under C. are assessed as at the end of each reference month above.

[2] Central government until September 2023, Budgetary Central Government from December 2023.

[3] Starting end-December 2023, the SDR allocation is no longer subtracted in the calculation of NIR under the program, as per the Technical Memorandum of Understanding.

[4] Quantitative performance criteria listed under B. are effective continuously from program approval.

[5] Annual for 2023, 2024 and 2025. The debt limit for 2025 is indicative and will be revised at the time of the third review, in line with the authorities' borrowing plan and updated DSA.

[6] Due to an absence of definition in the previous Technical Memorandum of Understanding, this indicative target is measured from December 2023 onwards.

[7] Comprises government spending on health, education and law and order (both capital and operating expenses).

Table 2. Papua New Guinea: Structural Benchmarks (May 2024—April 2025)			
No.	**Measure**	**Purpose/Macro-criticality**	**Implementation date**
	Budget repair		
1. Proposed reset deadline	Introduce amendments to the Income Tax Act to the Parliament aimed at strengthening revenue mobilization, streamlining its operation and ensuring consistency with the Tax Administration Act.	To strengthen domestic revenue mobilization.	End-December 2024
2.	Develop an initial worksheet of output-based key performance indicators to be applied at IRC's individual, team and division levels.	To enhance revenue administration and increase IRC's organizational productivity.	End-May 2024
3. Proposed reset deadline	Submit to the Parliament amendments to the Internal Revenue Commission Act 2014, in consultation with the IMF, to establish a Board for IRC's oversight.	To strengthen IRC's governance.	End-December 2024
4.	Complete data cleansing over current payroll records in the AscenderPay IT system and produce a report on the outcome of the cleansing exercise, shared with the IMF.	To ensure integrity of payroll information and enhance payroll management.	End-August 2024
	Governance and operations of the BPNG		
5. Proposed	Implement an interest rate corridor, centered around the Kina Facility Rate (KFR), and bounded by standing overnight deposit and borrowing facilities priced at +/-150 bps around the KFR.	To enhance liquidity management.	End-August 2024
6. Proposed	Modify to extend the lagged reserve maintenance period to 4-weeks and introduce partial reserve averaging.	To enhance liquidity management.	End-August 2024
	Governance and Anti-corruption Framework		
7.	Initiate an inter-agency working group on external sector statistics including representatives from the NSO, Treasury Department, PNG Customs Service and the BPNG.	To improve the consistency of external sector statistics with other official statistics.	End-June 2024
8. Proposed	Appoint the ICAC's oversight committee, as mandated by Part XII of the ICAC law.	To ensure sound governance and independent oversight over ICAC's operations.	End-September 2024
9. Proposed	Adopt memoranda of understanding between ICAC and at least four of the following agencies involved in the fight against corruption: (i) the BPNG's Financial Analysis and Supervision Unit (FASU), (ii) the Police, (iii) the Ombudsman's Office, (iv) the Auditor General's Office; and (v) the Public Prosecutor's Office.	To facilitate collaboration and exchange of information between anti-corruption agencies.	End-December 2024

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 performance criteria (PCs) and the indicative targets to be applied under PNG's 38-month Extended Credit Facility/Extended Fund Facility Program (ECF/EFF) spanning from March 2023 to May 2026, and should be read in conjunction with the Memorandum of Economic and Financial Policies (MEFP) that accompanies this TMU. It specifies the quantitative performance criteria and indicative targets on which the implementation of the ECF/EFF will be monitored in the period following completion of the Second Review and until June 2025. 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 as of test dates and performance under the program is assessed against those quantitative targets, unless otherwise specified.** Specifically, the Third Review will assess the end-June 2024 test date, the Fourth Review will assess the end-December 2024 test date, and the Fifth Review will assess the end-June 2025 test date. Indicative assessment dates have also been set at end-September 2024 and end-March 2025. The assessment criteria are specified in Table 1 of the MEFP.

Definitions

2. **For the purposes of the ECF/EFF program, government is defined as the central government of the Independent State of Papua New Guinea.** 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, in particular trust accounts. The budgetary central government is defined as the central government excluding extra budgetary units. The general government represents: the national and provincial governments; the Autonomous Bougainville government; and the commercial and statutory authorities.

3. **Exchange rates under the program.** For the purposes of this TMU, the value of transactions denominated in foreign currencies will be converted into PNG's domestic currency (PGK) based on the key exchange rates below as of December 31, 2022 (Table 1).

Table 1. Papua New Guinea: Exchange Rates
(End of period, 2022)

PGK/USD	3.524
PGK/AUD	2.387
USD/SDR	1.330

4. **Debt** is defined for the program purposes in accordance with Executive Board Decision No. 15688-(14/107), Point 8(a) and (b), as published on the IMF website (https://www.imf.org/external/SelectedDecisions/Description.aspx?decision=15688-(14/107)). 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.

5. **For the purposes of this ECF/EFF program, 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 9.** 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.

6. **External debt of the government** 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. For the purposes of the program, the definition of "debt" is set forth in point No. 9 of the "Guidelines on Performance

Criteria with Respect to External Debt" (see Decision No. 6230-(79/140) as revised on August 3, 2009 (Decision No. 14416-(09/91)).

For program evaluation, performance criteria under the ECF/EFF have been set (see Table 1 of the MEFP) as follows:

Quantitative Performance Criteria (QPCs)

Ceiling on the Cumulative Fiscal Deficit of the Budgetary Central Government

7. The **fiscal deficit** is calculated on a cash basis, and will be calculated as the **net acquisition of financial assets less net incurrence of financial liabilities** by the budgetary central government from the start of the fiscal year on January 1, as set out in Table E ("Transactions in Assets and Liabilities") in the 2023 Final Budget Outcome published by the Government of PNG.

8. **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 budgetary central government.

9. **Net incurrence of liabilities** is defined as the sum of the net incurrence of domestic liabilities and net incurrence of external liabilities.

- **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 6 above.

10. **For the purpose of program performance assessment,** the cumulative fiscal deficits at end-June 2024, end-December 2024 and end-June 2025 (PCs) and end-September 2024 and end-March 2025 (ITs) must be smaller than or equal to the amounts specified in Table 1 of the MEFP.

Floor on the Stock of Net International Reserves of BPNG

11. **Net international reserves** (stock) are defined as the difference between gross foreign assets and the use of IMF credit.

12. **Gross foreign assets 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.

13. Gross foreign assets 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.

14. The use of IMF credit includes the credit outstanding under IMF financing programs with Papua New Guinea (including resulting from the ongoing ECF/EFF program).

15. For the purpose of program performance assessment, the stock of net international reserves at end-June 2024, end-December 2024 and end-June 2025 must be equal or greater than specified in Table 1 of the MEFP.

16. Adjustor due to shortfall in disbursements from multilateral institutions and bilateral partners. The floor on the stock of Net International Reserves of BPNG will be adjusted downward by the amount of the shortfall in program loan and grant disbursements from multilateral institutions (*e.g.*, ADB and World Bank) and bilateral partners, relative to the baseline projection reported in Table 2. The adjustor will first be applied at the end-December 2024 test date. Program loan and grant disbursements are defined as external loan and grant disbursements (excluding project financing disbursements) from official creditors that are freely usable for the financing of the budget operations.

Table 2. Papua New Guinea: Adjustor Due to Shortfall in Program Loan and Grant Disbursements by Multilateral Creditors and Bilateral Partners
(In millions of US dollars)

	2024
	December
Expected disbursements of program loans and grants by multilaterals and bilateral partners 1/	505

1/ Cumulative from January 1, 2024.

Ceiling on BPNG's Gross Credit to Government

17. BPNG's gross credit to government is defined as the sum of:

- government securities held by BPNG at amortized cost, including T-bills and T-bonds,
- advances made by BPNG to the central government excluding temporary advances made within the Temporary Advance Facility (TAF); and
- loans made by BPNG to the central government excluding on-lent IMF or other external financing by BPNG to the government.

18. For the purpose of program performance assessment, BPNG's gross credit to government at end-June 2024, end-December 2024 and end-June 2025 must be lower than or equal to the amounts specified in Table 1 of the MEFP.

Continuous Performance Criteria (PCs)

Ceiling on the Present Value (PV) on New External Debt Contracted or Guaranteed by the Government

19. The present value (PV) of any external borrowing by the government is defined as the stream of annual discounted future debt service payments for each loan, using a discount rate of 5 percent.

20. For debts carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month USD LIBOR is 2.73 percent and will remain fixed for the duration of the program. Where the variable rate is linked to a benchmark interest rate other than the six-month USD LIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added. For interest rates on the Australian Dollar, the spread over six-month USD LIBOR is 50 basis points.

21. For the purposes of program monitoring, a continuous ceiling in PV terms will apply to the contracting or guaranteeing of new external debt by the Government or the BPNG. The ceiling applies to debt contracted or guaranteed for which value has not yet been received, including private debt for which official guarantees have been extended.

22. An adjustor of up to 5 percent of the external debt ceiling set in PV terms applies to this ceiling, in case deviations from the performance criterion on the PV of new external debt are prompted by a change in the financing terms (interest, maturity, grace period, payment schedule, upfront commissions, management fees) of a debt or debts. The adjustor cannot be applied when deviations are prompted by an increase in the nominal amount of total debt contracted or guaranteed.

23. For program purposes, a debt is considered to be contracted when all conditions for its entry into effect have been met, including approval by Treasury. Contracting of credit lines (which can be drawn at any time and entered into effect) with no predetermined disbursement schedules or with multiple disbursements will be also considered as contracting of debt.

24. 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.

Ceiling on New External Payment Arrears of the Government

25. For the purposes of the PC on the non-accumulation of new external payment arrears, **external payment arrears of the government** 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).

B. Other Assessment Criteria

26. During the program period, PNG will not:

a. Impose or intensify restrictions on the making of payments and transfers for current international transactions;

b. Introduce or modify multiple currency practices (MCPs);

c. Conclude bilateral payments agreements which are inconsistent with Article VIII of the IMF Articles of Agreement; and

d. Impose or intensify import restrictions for balance of payments reason.

C. Assessment Criteria: Indicative Targets

27. Indicative targets have been set for the test dates (end-June 2024, end-December 2024 and end-June 2025). 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. Targets have also been set at the indicative assessment dates (end-September 2024, end-March 2025). For the calculation, monitoring and evaluation of the indicative targets, the following definitions will be used.

Definitions and Calculations

28. Non-resource tax revenues of the government are defined in line with the GFSM 2014 and consist of: (i) taxes on income, profits, and capital gains; (ii) taxes on payroll and workforce; (iii) taxes on property; (iv) taxes on goods and services; and (v) taxes on international trade and transactions but shall exclude mining and petroleum taxes.

29. New domestic payment arrears of the budgetary central government are overdue domestic payment obligations of the budgetary 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. They exclude obligations related to purchases of goods and services. Except in case where the terms and conditions of the transaction stipulate a longer period, payments are deemed to be in arrears when:

- Domestic 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.

30. 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 each month, with the intention to assist meeting the FX orders in the market. This indicative target was last assessed at end-December 2023.

31. The stock of unmet import-related FX orders is defined as the total amount of FX orders related to imports of goods compliant with BPNG's published FX regulations and submitted by authorized foreign exchange dealers to BPNG's orderbook more than two months prior to the assessment date. This indicative target will first be assessed at end-March 2024.

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

D. Program Monitoring and Data Reporting

33. 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. With respect to continuous QTs, the authorities will report any non-observance to the IMF promptly.

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

Table 3. Papua New Guinea: Data Reporting for Program Monitoring

Data Description	Type of Data	Reporting Agency	Reporting Frequency	Reporting Lag
Fiscal Sector				
Net acquisition of financial assets and net incurrence of financial liabilities, consisting of:	Budget operations	Treasury	Monthly	1 month
• External loans disbursed and external debt instruments issued, broken down by type of creditor or holder;	Debt	Treasury	Monthly	1 month
• External loans repaid and external debt instruments redeemed, broken down by type of creditor or holder;	Debt	Treasury	Monthly	1 month
• Domestic financial assets accumulated including deposits at the BPNG or other depository institutions;	Debt	Treasury	Bi-annual	1 month
• External financial assets accumulated, including FX deposits at the BPNG and other depository institutions, including foreign entities;	Debt	Treasury	Bi-annual	1 month
• Domestic loans disbursed;	Debt	Treasury	Monthly	1 month
• Domestic loans repaid;	Debt	Treasury	Monthly	1 month
• Domestic securities issued, broken down by original maturity, by face value and proceeds from issuance;	Debt	Treasury	Monthly	1 month
• Domestic securities redeemed by original maturity;	Debt	Treasury	Monthly	1 month
• Loans or advances from the BPNG (excluding any on-lending of external loans contracted with the Fund or other development partners);	Debt	Treasury	Monthly	1 month
• Any other long-term (exceeding 1 year) domestic liability of the central government.	Debt	Treasury	Monthly	1 month
Opening balance, closing balance, inflows and outflows of government trust accounts at end-month, both consolidated and detailed by trust account.	Cash	Treasury	Monthly	1 month
Payments incurred by the budgetary central government on education, health, and law and order (both capital and current spending).	Debt	Treasury	Monthly	1 month
Stock of domestic arrears: (i) total stock of verified and unverified claims under the Arrears Verification program; (ii) amount of claims verified and paid by the Arrears Verification Committee over the past month.	Domestic Arrears	Treasury	Monthly	1 month

Table 3. Papua New Guinea: Data Reporting for Program Monitoring (Continued)

Data Description	Type of Data	Reporting Agency	Reporting Frequency	Reporting Lag
Table comparing the value of the personnel emolument liabilities incurred and the value of the personnel emolument payments made over the past quarter.	Domestic Arrears	Treasury	Quarterly	6 weeks
Total non-resource tax revenues received by the central government, consisting of: • taxes on income, profits, and capital gains; • taxes on payroll and workforce; • taxes on property; • taxes on goods and services; and • taxes on international trade and transactions.	Revenue	Treasury	Monthly	6 weeks
Total resource revenue received by the central government, consisting of: • mining and petroleum taxes; • royalties levied on petroleum companies; • mining and petroleum dividends; and • any other resource revenue.	Revenue	Treasury	Monthly	6 weeks
Total non-resource non-tax revenue received by the central government, consisting of: • property income (interest, non-resource sector dividends, rent) • sales of goods and services • fines, penalties and forfeits • any other non-resource non-tax revenue.	Revenue	Treasury	Monthly	6 weeks
Monthly cash plan.	Cash	Treasury	Monthly	1 month
Stock of domestic debt, disbursements, amortization, interest, and other fees and charges; face value, maturity, interest rate, payment schedule and actual payments made over the past month.	Domestic debt	Treasury	Monthly	1 month
Stock of external debt, disbursements, amortization, interest, and other fees and charges; face value, maturity, interest rate, and payment schedule.	External debt	Treasury	Monthly	1 month
Details on amount and terms 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.	External debt	Treasury	Monthly	1 month

Table 3. Papua New Guinea: Data Reporting for Program Monitoring (Continued)				
Data Description	**Type of Data**	**Reporting Agency**	**Reporting Frequency**	**Reporting Lag**
Amount of new external debt contracted by Government.	External debt	Treasury	Monthly	1 month
All guarantees provided by the government including guarantees to public corporations and private sector.	External debt	Treasury	Monthly	1 month
Real Sector				
Consumer Price Index.	Economic indicators	NSO	Quarterly	3 months
National Accounts (breakdown of production) in real and nominal terms.	Economic indicators	NSO	Annual	24 months
Agricultural production data (volume/value of major products).	Economic indicators	Treasury	Quarterly	3 months
Mineral production data (volume/value of major products).	Economic indicators	Treasury	Quarterly	3 months
Structural Benchmarks				
Table with a description of the status of implementation of the structural measures in Table 2 of the MEFP.	Structural benchmarks	Treasury	Bi-annual	1 month
Monetary and Financial Sector				
Detailed balance sheet data of the BPNG submitted in the reporting template.	Monetary	BPNG	Monthly	1 month
Amount of government securities held by BPNG at amortized cost	Monetary	BPNG	Monthly	1 month
Cash flows of the Waigani Public Account, Debt Repayment Account, and the Temporary Advance Facility (TAF).	Cash	BPNG	Monthly	1 month
Daily sale of FX (in USD) by the BPNG to authorized FX dealers (detailed by dealer).	FX	BPNG	Weekly	1 week
Depository Corporations Survey.	Monetary	BPNG	Quarterly	3 months
Balance sheets and income statements by financial institutions (aggregate and by bank).	Financial	BPNG	Quarterly	3 months
Outstanding amount of unsatisfied requests for FX purchase to pay for current account (or authorized) transactions.	FX	BPNG	Weekly	1 week

Table 3. Papua New Guinea: Data Reporting for Program Monitoring (Concluded)

Data Description	Type of Data	Reporting Agency	Reporting Frequency	Reporting Lag
Monthly update report on the implementation of the monetary and FX reform roadmap.	Monetary / FX	BPNG	Monthly	1 month
Financial Soundness Indicators (aggregate and by bank).	Financial	BPNG	Quarterly	1 month
Lending activity of banks (by sector).	Financial	BPNG	Monthly	1 month
External Sector				
Balance of Payments data in the reporting template provided by IMF staff.	BOP	BPNG	Quarterly	3 months
Import and export data, by sectors.	BOP	BPNG	Quarterly	3 months
Net international reserves, including reserve assets/liabilities by original currency.	BOP	BPNG	Monthly	1 month
Foreign exchange flow data (by type of flow).	BOP	BPNG	Monthly	1 month
Banks' purchases and sales of foreign currency (specified by bank, sector and by type of flow).	FX	BPNG	Monthly	1 month
List of the foreign exchange allocation pipeline (orderbook) with information about length of time needed to fulfill order and type of orders (especially imports of goods and import-related intercompany loans).	FX	BPNG	Monthly	1 month

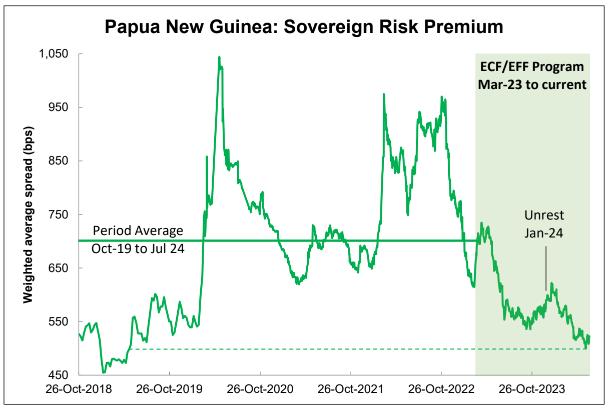
Statement by Robert Nicholls, Executive Director for Papua New Guinea
Chris Becker, Advisor to Executive Director and Megan Garner,
Advisor to Executive Director
July 12, 2024

The Government of Papua New Guinea has continued to implement wide-ranging reforms in line with extended arrangements under the current IMF program. In the Second Review period the authorities met all end-December 2023 quantitative and indicative targets, as well as all continuous performance criteria. Six Structural Benchmarks were fully implemented, while three are currently delayed. The authorities are working steadily toward implementation of the delayed benchmarks, the most prominent of which is the amendment to the Income Tax Act. Successful passage of the legislation requires careful building of political consensus, input from a broad range of stakeholders, and preparation of carefully worded communication to the public. This is critically important given that the social unrest in January 2024 was in part the result of uninformed views related to recent minor tax changes. As a result, the authorities are requesting that the deadline be reset from end-December 2023 to end-December 2024 when it is hoped that conditions will be more amenable to accepting the proposed changes.

The overall program focus on structural impediments to growth and development will promote future performance of the economy. Reforms to date include non-resource sources of growth, improving public finances, measures to retain a larger share of natural resource returns, public infrastructure investment, improving governance, containing the public wage bill, and improving the efficiency of state-owned enterprises. A 13-year fiscal repair program aims to return the budget to surplus by 2027 and create the capacity to repay public debt over a four-year horizon. In the financial sector, the authorities are making progress in modernizing market functioning and increasing the effectiveness of monetary policy. Central bank governance and operations are being gradually reorganized, and appreciable progress has been made in liberalizing the exchange rate through a crawling peg-like arrangement; a key benefit will be addressing frictions that result in chronic foreign exchange shortages.

Public sector capacity constraints continue to dictate the rate of progress in a fragile low-income developing economy. Program implementation is complicated by socio-political frictions, a lack of parliamentary stability, and economic circumstances that at times make progress challenging and uneven. The first review demonstrated exemplary performance by the authorities. In this second review period, the rate of progress was hampered by significant social unrest. The January 2024 protests and riots resulted in the loss of lives and unfortunate destruction of property and looting. Despite this bout of instability, the authorities pressed ahead, albeit under additional constraints. As we noted at the outset of the program, achievements, and delays should be viewed in an appropriate real-life context so that the suite of reforms remains realistic, fit for purpose, and stands the best chance of achieving durable traction, together with the broader social and political acceptance required to maintain meaningful change.

The authorities view the IMF as a close and trusted partner, providing invaluable support through its surveillance, lending, timely technical assistance, and capacity development activities. The authorities are grateful for the commitment and assistance of the mission team, the resident representative, and other departments. These efforts, together with the program ownership and commitments of the authorities, have contributed to convincing progress toward the program objective of advancing sustainable economic growth and poverty reduction. Since the inception of the program in March 2023, international financial markets have recognized this progress through a material narrowing of the sovereign risk premium—the lowest spread since early 2019.



Implementation of financial and monetary policy reforms have taken a decisive step in the right direction. Parameters have been established for the new crawling peg-like exchange rate regime and the PNG kina has been trading under this arrangement against the US dollar for some time now. With ample foreign reserves to underpin the credibility of the regime, it is envisaged that any small remaining overvaluation of the real effective exchange rate will be gradually eliminated, while spreading the associated high pass through into inflation over an acceptable interval to allow for associated adjustments. Foreign exchange conversion and trading restrictions are being dismantled as domestic market participants gradually become more familiar with the new arrangements. An important outcome of these changes will be achieving full convertibility of the PNG kina. Monetary policy enhancements under a comprehensive roadmap have been directed at central bank governance reform, the alignment of key policy rates, sterilization of excess liquidity in the interbank money market, and improved arrangements for open market operations. A governor and deputy governor have been appointed and key positions have been filled on the board. With technical assistance from the IMF, the Central Banking Act (CBA) has been redrafted and submitted to parliament, albeit subject to technical delays and competing priorities. Staff agree with the authorities that these proposed changes significantly strengthen governance and operational independence.

The Bank of Papua New Guinea has formally requested the assistance of a long-term expert from the IMF to assist with the calibration, sequencing, coordination, and implementation of monetary policy reforms. This position would be a valuable addition to the ability of the authorities to meet program obligations. Our authorities urge timely and favorable consideration of this request given the importance of achieving related successes over the remainder of the program.

Priorities for the remainder of the program will center on improving cash management processes, further fiscal consolidation through expenditure restraint and broadening the revenue base. The authorities understand the importance of the Independent Commission Against Corruption in establishing property rights, contract enforceability, and the rule of law; this will underpin a more robust environment for doing business and attracting foreign direct investment. Monetary reforms will aim to further modernize the implementation of policy with the introduction of an official interest rate corridor aimed at enhancing the transmission of policy rate changes.

Given Papua New Guinea's vulnerability to climate change and the need to increase resilience, work is progressing on adaption to climate change and disaster management. The authorities have requested a Climate Policy Diagnostic (CPD) and a Climate Public Investment Management Assessment (C-PIMA), which will provide a detailed overview of climate policies and reform priorities. However, they understand the importance of considering binding capacity constraints and limited absorptive capacity when undertaking this work alongside an already ambitious program agenda.

The authorities request Board approval of the Second Review under the ECF and EFF arrangements and the release of the related purchase and disbursement. This disbursement is intended to help address balance of payments and budget financing needs, while moving Papua New Guinea closer toward achieving the next stage of the ambitious reform agenda.