



PAPUA NEW GUINEA

June 2020

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR PAPUA NEW GUINEA

In the context of the Request for Disbursement under the Rapid Credit Facility, 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 June 5, 2020, following discussions that ended on May 15, 2020, with the officials of Papua New Guinea on economic developments and policies underpinning the IMF arrangement under the Rapid Credit Facility. Based on information available at the time of these discussions, the staff report was completed on June 1, 2020.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- 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.



IMF Executive Board Approves a US\$363.6 Million Disbursement to Papua New Guinea to Address the COVID-19 Pandemic

FOR IMMEDIATE RELEASE

- The IMF Executive Board approved the disbursement of US\$363.6 million in emergency financing to help Papua New Guinea address urgent balance of payments needs created by COVID-19.
- IMF financing support provides resources to the authorities to maintain macroeconomic stability with the aim of assisting the private sector adversely affected by COVID-19.
- To address the pandemic, the Government of Papua New Guinea has taken measures to support businesses, workers, and households to safeguard the health and livelihoods of the population.

Washington, DC – June 9, 2020. The Executive Board of the International Monetary Fund (IMF) approved a disbursement to Papua New Guinea (PNG) under the [Rapid Credit Facility](#) (RCF) equivalent to SDR 263.2 million (about US\$363.6 million, 100 percent of quota) to help cover urgent balance of payments needs stemming from the global COVID-19 pandemic.

The COVID-19 pandemic is hitting the PNG economy hard, through export losses and the impact of measures to mitigate transmission of the virus. The crisis erupted as the government was beginning to implement wide-ranging reforms under a Staff-Monitored Program (SMP). The authorities have acted forcefully to prevent a significant outbreak of the COVID-19 virus. While these efforts have been successful to date, the economic impact of mitigation measures and export losses is likely to lead to negative growth in 2020 and has generated significant fiscal and balance of payments financing needs. Lower resource export earnings have led to a large balance of payments shortfall of around 4 percent of GDP, while measures to contain the spread of the virus are dampening economic activity and government revenues, leading to a substantial widening of the budget deficit to over 6 percent of GDP.

With limited scope for increasing borrowing domestically or abroad, the authorities' economic policy response has focused on reallocating spending within the budget envelope towards health care², as well as facilitating access of unemployed workers to superannuation savings, and encouraging banks to support individuals and businesses adversely affected by the economic downturn. Despite the COVID-19 crisis, the authorities have re-affirmed their commitment to reform, and PNG's longer-term outlook remains positive, based on the SMP reform agenda and the likelihood that major resource projects will come to fruition in coming years.

Following the Executive Board discussion, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, made the following statement:

“Papua New Guinea is facing headwinds at a time when its economy is already fragile and has limited fiscal space. The COVID-19 pandemic is expected to have a significant negative impact on domestic economic activity and growth. The fall in global prices for some of its major exports is posing additional challenges. These developments have led to a sharp fall in export revenues and an urgent balance of payments financing need. IMF support, through the Rapid Credit Facility, would help meet immediate financing needs and should catalyze financial support from development partners.

“The authorities have taken quick action and implemented measures to prevent transmission and spread of the COVID virus. They have also taken a series of policy measures, including fiscal and financial measures, to support activity and incomes, despite a substantial fall in government revenues. With very limited fiscal space, measures have focused mainly on redirecting spending toward key services, including healthcare, easing access to private savings, and avoiding a credit crunch.

“Assistance from development partners is needed to close the balance of payments gap and to help address the fiscal shortfall. To strengthen confidence in their commitment to the appropriate use of financial support, the authorities have taken strong steps to increase transparency and accountability for COVID-related spending. They have also taken action to implement key structural benchmark measures in the Staff-Monitored Program to underscore their ongoing commitment to the reforms embodied in that program.”

More information:

IMF Lending Tracker (emergency financing request approved by the IMF Executive Board)
<https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker>

IMF Executive Board calendar
<https://www.imf.org/external/NP/SEC/bc/eng/index.aspx>

IMF Factsheet: The IMF's Rapid Credit Facility (RCF)
<https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/21/08/Rapid-Credit-Facility>

Table 1. Papua New Guinea: Selected Economic and Financial Indicators, 2016–2025

Nominal GDP (2016):	US\$21.1 billion 1/									
Population (2016):	7.9 million									
GDP per capita (2016):	US\$2,568									
Quota:	SDR 263.2 million									
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
			Est.				Proj.			
	(Percentage change)									
Real sector										
Real GDP growth	4.1	3.5	-0.8	5.0	-1.7	0.3	1.4	3.7	3.8	3.4
Resource 2/	9.8	7.9	-9.3	9.7	-3.0	0.8	1.8	1.7	1.5	1.2
Non-resource	1.5	1.5	3.4	2.9	-1.0	0.0	1.2	4.7	4.8	4.4
Mining and quarrying (share)	9.0	10.2	10.6	10.3	11.8	11.9	12.3	11.9	11.5	11.2
Oil and gas extraction (share)	14.8	16.5	16.8	17.7	12.8	14.5	14.7	14.4	14.0	13.7
CPI (annual average)	6.7	5.4	4.7	3.6	3.7	3.6	4.9	4.1	3.0	2.9
CPI (end-period)	6.6	4.7	4.8	2.9	3.3	4.2	5.0	3.4	2.9	2.9
	(In percent of GDP)									
Central government operations										
Revenue and grants	16.1	15.9	17.8	15.4	14.1	15.6	16.0	16.2	16.5	16.8
<i>Of which:</i> Resource revenue	0.6	0.9	1.7	1.5	0.2	0.8	0.7	0.7	0.6	0.6
Expenditure and net lending	20.9	18.4	20.4	19.5	20.4	20.5	20.1	19.8	19.7	19.8
Net lending(+)/borrowing(-)	-4.7	-2.5	-2.6	-4.1	-6.4	-5.0	-4.1	-3.7	-3.2	-3.1
Non-resource net lending(+)/borrowing(-)	-5.4	-3.4	-4.3	-5.7	-6.6	-5.7	-4.8	-4.4	-3.9	-3.7
	(Percentage change)									
Money and credit										
Domestic credit	24.6	-0.1	-7.9	12.7	6.3	6.2	6.9	6.9	5.9	7.8
Credit to the private sector	7.2	-3.8	7.4	10.5	2.9	3.2	6.0	8.4	7.4	7.7
Broad money	10.9	-0.9	-3.8	9.6	0.6	8.0	9.2	9.2	4.7	6.7
Interest rate (182-day T-bills; period average)	7.4	7.1	7.0	6.5	4.8	4.5	5.7	6.1	5.2	5.0
	(In billions of U.S. dollars)									
Balance of payments										
Exports, f.o.b	8.7	10.4	10.2	11.3	9.6	11.2	11.6	12.0	12.4	12.9
<i>Of which:</i> Resource sector	7.3	8.9	8.9	9.8	8.5	9.8	10.1	10.4	10.8	11.2
Imports, c.i.f.	-1.8	-2.5	-2.5	-3.6	-3.8	-4.2	-4.5	-4.7	-4.9	-5.0
Current account (including grants)	6.1	6.8	6.3	5.5	3.5	4.4	4.2	4.2	4.4	4.6
(In percent of GDP)	29.4	29.9	26.1	22.0	14.6	18.6	17.6	16.5	16.2	16.3
Gross official international reserves	1.7	1.7	2.2	2.0	1.7	1.9	2.0	2.1	2.5	2.9
(In months of goods and services imports)	5.4	5.2	5.2	4.7	3.5	3.5	3.5	3.6	4.1	4.8
	(In percent of GDP)									
Government debt										
Government gross debt	33.7	32.5	36.8	39.0	43.5	45.6	46.9	45.6	44.2	42.6
External debt-to-GDP ratio (in percent) 3/	8.5	8.8	15.2	16.5	21.4	24.3	26.1	26.6	27.0	27.1
External debt-service ratio (percent of exports) 3/	2.1	2.1	2.1	3.5	7.1	4.0	2.6	3.3	3.4	3.3
Exchange rates										
US\$/kina (end-period)	0.3150	0.3905	0.2970	0.2935	...	...	...	...	...	...
NEER (2005=100, end-period)	101.2	98.6	95.5	96.2	...	...	...	...	...	...
REER (2005=100, end-period)	121.1	122.3	121.8	125.1	...	...	...	...	...	...
Terms of trade (2010 = 100, end-period)	59.6	58.4	57.8	60.6	69.9	75.6	74.0	73.4	72.9	71.5
Nominal GDP (in billions of kina)	65.0	72.5	79.2	84.7	83.2	88.8	94.9	101.8	108.3	115.0
Non-resource nominal GDP (in billions of kina)	49.5	53.1	57.4	61.0	62.7	65.4	69.3	75.1	80.6	86.4

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.



PAPUA NEW GUINEA

June 1, 2020

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY

EXECUTIVE SUMMARY

Context

The COVID-19 pandemic erupted just as the government was beginning to implement wide-ranging fiscal, foreign exchange, structural, and governance measures under a Staff-Monitored Program (SMP). The authorities have reaffirmed their commitment to these reforms, but the impact of the crisis is generating balance of payments and fiscal gaps of 4 and 3 percent of GDP, respectively. In the near term, risks are primarily on the downside, especially if there is a widespread local outbreak of the virus. Papua New Guinea's longer-term outlook remains positive, largely reflecting the likelihood of major resource sector projects.

Request for Fund Support

The authorities are seeking financial assistance under the Rapid Credit Facility (RCF) to address the budgetary and external financing gaps arising from the COVID-19 pandemic. They are also requesting that the RCF be available for direct budget support. The authorities are seeking additional financing from multilateral and bilateral donors to cover the remaining financing needs, and a suspension of debt service under the G-20 COVID-19 Debt Service Initiative. Important prior actions have been implemented to strengthen revenue collection, improve treasury cash management, and safeguard transparency and accountability of COVID-related spending.

Staff's Views

Staff supports the authorities' request for a disbursement under the Rapid Credit Facility in the amount of SDR 263.2 million (100 percent of quota). Given the large fiscal financing gap, staff also supports the disbursement in the form of budget support. In this context, staff commends the authorities' commitment and actions to ensure a high degree of transparency and accountability for COVID-related spending.

Approved By
Jonathan D. Ostry
(APD) and Johannes
Wiegand (SPR)

Discussions took place via teleconference during May 14-15, 2020. The staff team comprised Scott Roger (Head), Geoffrey Bannister, Natalija Novta (all APD), Yeu Jin Jung (SPR), and Devendra Narain (Pacific Res Rep Office). The team held discussions with Dairi Vele (Secretary of the Treasury), Sam Koim (Commissioner General of the IRC), Joe Teria (Deputy Governor of the BPNG) and other senior officials. Ms. Johnson (OED), and Ms. Hunter (Pacific Res Rep) also participated in the discussions. Paola Castillo and Nadine Dubost assisted in the preparation of the report.

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CONTEXT

1. Papua New Guinea (PNG) entered the crisis with an already fragile macroeconomy and limited policy space to react. Growth in the resource sector has been challenged by weak commodity prices, while the non-resource sector remains hobbled by a lack of foreign exchange and an overvalued exchange rate. The authorities' program of fiscal consolidation stalled in 2019 and the recognition of contingent liabilities increased the public debt ratio well above what had been previously projected.

2. The authorities requested a Staff-Monitored Program (SMP) in February to signal their commitment to addressing PNG's key macroeconomic challenges (Box 1).

While some measures in the SMP have been implemented as planned, some quantitative targets and dates for implementation of some structural reforms will need to be recalibrated at the time of the first SMP review (June 2020). Discussions with the authorities indicate that most structural benchmarks are being met, though some have been delayed by the COVID crisis. The most important outstanding measure is the completion of an audit of government employment and payroll practices. Some quantitative targets are being met, such as those for

international reserves, non-concessional borrowing, and BPNG financing of the public sector, but others relating to the fiscal deficit and tax revenues will certainly be missed. To demonstrate their continued commitment to the objectives of the SMP and establish a positive track record on policy implementation, the authorities have completed, as prior actions for the RCF, two important but overdue benchmarks under the SMP (Box 2).

Box 1. PNG's SMP (effective Feb. 21)

Fiscal measures

- To gradually reduce the public debt-to-GDP ratio from over 40 percent to the long-term target of under 30 percent:
 - Contain and reduce spending on personal emoluments;
 - Implement an updated Medium-Term Revenue Strategy.
- Gradually clear payments arrears within a transparent and credible verification framework.

Monetary and Foreign Exchange (FX) measures

- Strengthen liquidity management and monetary operations;
- Clear a backlog of unfilled FX orders at banks;
- Gradually restore kina convertibility and flexibility.

Structural and Governance measures

- Implement a comprehensive program of State-Owned Enterprise reforms;
- Strengthen anti-corruption and governance reforms.

Box 2. Prior Actions Under the RCF

As prior actions under the RCF, the authorities undertook to implement important, but overdue, benchmarks under the SMP, and to strengthen transparency and accountability regarding COVID-related government procurement.

The following measures that were benchmarks under the SMP have been implemented as prior actions for the RCF:

- *The Medium-Term Revenue Strategy (MTRS) Steering Committee to set specific objectives and milestones to be achieved in 2020, based on PNG Internal Revenue Commission (IRC) Annual Plan.* The Steering Committee has set specific objectives and milestones, documented in an MTRS 2020 Priority Reform Matrix on May 13-14;
- *Treasury to prepare a debt issuance and external debt disbursement plan based on cash forecasts, and regularly share updated projections with BPNG.* Treasury has begun sharing with BPNG detailed monthly projections for payments, receipts and cash. Latest update on May 8.

The following prior actions for the RCF have been implemented regarding COVID-related government spending:

- Details of COVID-related government procurement are being posted within one week of contracting on the government procurement website (<http://www.procurement.gov.pg/>), under a special tab. As of mid-May, 14 contracts and purchases since mid-March, totaling \$20.7 million, were posted. Contract and purchase details being reported include contract issuer, contract amounts, the specific nature of the goods or services procured, their price per unit (where applicable), contract recipients and beneficial owners, and validation of contract delivery;
- Reports on procurement are now being provided to the Budget Management Committee on a weekly basis, with the first submitted on May 18.

Moreover, the authorities have committed to the following measures:

- Within three months of the end of the State of Emergency, a consolidated report on procurement will be provided to the National Executive Council;
- Within one year of the end of the State of Emergency, the government will commission and publish an audit by an independent and reputable auditor.

IMPACT OF THE COVID-19 PANDEMIC AND MEDIUM-TERM OUTLOOK

A. Impact

3. GDP growth is projected to fall to -1.7 percent in 2020, 3.7 percentage points below projections made before the crisis. The fall in GDP reflects measures taken to prevent importation and spread of COVID-19, and large declines in major export prices.

4. The authorities have taken strong measures to contain the risk of a COVID-19 outbreak. They declared a state of emergency involving strict border controls and travel restrictions, and a partial lock-down (Box 3). This has contained the spread of the virus so far, but has sharply cut economic activity in the non-resource sector. The measures are expected to be eased in the second half of the year, but could further reduce GDP growth if extended.

Text Table 1. Impact of COVID
(In percent of GDP, unless otherwise indicated)

	2020 Pre-COVID	2020 Post-COVID	Δ Change
GDP growth (percent)	2.0	-1.7	-3.7
Inflation (percent)	4.8	3.7	-1.1
Fiscal balance	-3.3	-6.4	-3.0
Public debt	40.8	43.5	2.7
Current account	25.0	14.6	-10.4

Source: IMF Staff calculations.

Box 3. Healthcare Policy: COVID-19 Measures

Instrument	Measure
Border closure	Tight controls on international travel since late January. From March 21, only returning PNG residents allowed, subject to 14-day self-isolation; domestic flights grounded.
State of emergency	State of emergency declared on March 24, extended to early June, closing all schools, non-essential businesses, and organizations, and restricting inter-provincial movement.
Contact tracing and isolation	Isolation center established in Port Moresby for COVID-19 patients, and their close contacts.
New protocols planned	When restrictions are eased, employers will need to arrange physical distancing and use of face masks.
Spread contained	Only 8 confirmed COVID-19 cases as of May 8, all resolved. The main risk is for transmission from West Papua.

5. The COVID-19 crisis affects PNG's export earnings sharply, triggering a large balance of payments financing gap (Text Table 2). Weak global demand and lower prices for major resource exports are expected to reduce export earnings and lower the current account surplus from 22 percent of GDP in 2019 to 14.6 percent of GDP in 2020. This is only partially mitigated by lower financial account outflows (including external payments related to resource projects), resulting in a significant external financing gap, before the drawdown of reserves, of US\$ 1.0 billion or 4.0 percent of GDP.¹

6. Gross international reserves are projected to decline from \$2 billion to \$1.7 billion (3.5 months of imports), as the authorities draw down reserves to cushion the impact of reduced foreign exchange inflows on activity in the non-resource sector, and imports of essential medical supplies. This is below the level of 6.9 months cover estimated as appropriate for PNG according to the Fund's reserve adequacy metric, but above the 3 months cover often used as a benchmark for reserve adequacy. Reserves are expected to increase from 2021, as the terms of trade improve, and non-resource exports recover.

Text Table 2. Balance of Payments: COVID-19 Impact
(In billions of U.S. dollars)

	2020		Δ Change
	Pre- COVID	Post- COVID	
Current account	6.3	3.5	-2.8
Resource balance	7.9	5.2	-2.7
Non-resource balance	-1.6	-1.7	-0.1
Foreign direct investment	-0.7	-0.5	0.2
Portfolio investment	-0.4	0.0	0.4
Other investment	-5.2	-4.1	1.1
Overall Balance	0.0	-1.0	-1.0
Reserves draw down	...	...	0.3
BOP financing needs	...	...	-0.7
(In percent of GDP)	...	...	-2.8
Potential financing	...	...	0.7
IMF (RCF)	...	...	0.4
Other MDBs	...	...	0.1
Unidentified support	...	...	0.2

Source: Fund staff estimates.

Note: For detailed information, please see Annex I.

¹ After expected draw down of reserves of US\$394 million the financing gap is US\$692 million or 2.9 percent of GDP (see Table 3).

7. Weaker fiscal revenues are expected to lead to a fiscal financing gap of around US\$ 700 million (3 percent of GDP).

Revenues are projected to fall by K2.2 billion, mainly due to lower profits and dividends from the resource sector, as well as declines in fees and other revenue. The authorities have allocated additional spending needs of K645 million (0.8 percent of GDP) to address direct health expenditure and other social protection needs, including security. They aim to keep overall nominal expenditure fixed at the 2020 Budget level and divert funds from goods and services (K400 million) and capital spending (K245 million) to COVID-19 related needs. As in the SMP, the authorities will continue to try to pay down arrears and pursue additional public investment projects contingent on finding adequate additional external financing for these expenditures.

Text Table 3. Fiscal Accounts: COVID-19 Impact
(In percent of GDP)

	Pre-COVID	Post-COVID	Δ
Revenue	15.1	14.1	-1.0
o/w Tax revenue	12.2	12.2	0.0
Non-tax revenue	1.9	0.7	-1.2
Expenditure	18.4	20.4	2.0
Current	15.5	17.4	1.9
o/w Compensation of Employees	5.8	6.5	0.6
Goods and Services	4.4	4.5	0.1
Capital	2.9	3.0	0.1
COVID-19 related	...	0.6	0.6
Overall Balance	-3.3	-6.4	-3.0
(in billions of US dollars)	-0.8	-1.5	-0.7
	(in billions of US dollars)		
Potential Financing	...	...	0.7
IMF (RCF)	...	...	0.4
Other IFIs	...	...	0.1
Unidentified support	...	...	0.2
Memorandum:			
Nominal GDP	25.3	23.8	-1.5

Source: IMF estimates.

8. The authorities are seeking financing from the RCF due to the urgent balance of payments need.

Of the estimated US\$1 billion balance of payments financing gap owing to COVID-19, US\$700 million would be financed by additional external lending, including US\$364 million RCF financing and an estimated US\$300 million from multilateral development banks (MDBs) (World Bank and AsDB) and bilateral partners. The remaining gap of around US\$300 million would need to be closed by reserve drawdown, import compression, or additional support from external donors, and for which the RCF could act as a catalyst. On the fiscal side, of the additional US\$700 million required to fill the COVID-19 fiscal financing gap, US\$500 million (1.9 percent of GDP) is expected to come from exceptional financing, including the disbursement under the RCF (US\$364 million or 1.6 percent of GDP) and MDBs (US\$72 million or 0.3 percent of GDP). The remaining 1.0 percent of GDP is unidentified financing, for which the authorities are seeking support from bilateral partners, including Australia and Japan. The remaining financing gap would need to be filled by additional issuance of domestic debt if other external financing sources cannot be secured. (Table 2b).

B. Medium-Term Outlook and Risks

9. The current projections are based on the expectation that the global economy will begin to recover in 2021, and that there is no widespread outbreak of COVID-19.

A more prolonged deterioration in world trade and commodity prices will worsen the external sector and delay recovery in fiscal revenues. A severe COVID-19 outbreak in PNG would cut growth and fiscal revenues even further, and increase spending requirements on healthcare. With little fiscal space, the government would need to further cut non-essential spending and rely on additional donor

support. A sustained downturn in the world economy would also be likely to keep export prices low, putting downward pressure on the currency. The external financing environment could also become more challenging.

ADDRESSING THE IMPACT OF THE PANDEMIC

10. The authorities are taking measures to mitigate the economic impact of the crisis, with a package of stimulus measures. The large majority of these measures aim to cushion the economy with monetary, financial and banking policies. Only a small part of the package (K645 million or 0.8 percent of GDP) comprises direct fiscal spending on COVID-19 needs, as the authorities are attempting to maintain the fiscal envelope of spending in the 2020 Budget, given already high debt and the limited spread of COVID-19 to date.

A. Fiscal Policy Measures

- **The distribution of direct spending measures is presented in Text Table 4:**

95.5	Provincial and District Authorities basic health needs.
56.5	Department of Health for COVID-related activities
173	Police, Defense and Correctional Services, including border security
113	Provincial and District Authorities to promote agricultural development and food security
50	Price supports for agricultural products
45.5	Rural small business support
41.5	Logistics business stimulus package
70	Unallocated emergency spending contingency
645	Total

Sources: Authorities' data and IMF staff calculations.

- **Tax administration measures.** Companies and individuals will receive temporary tax relief in the first half of the year, with full payment of obligations in the second half, through an extension of the filing due date and a deferral of tax payments. In addition, there is a deferral of the imposition of tax penalties, and Goods Services Tax refunds to medical services, hospitality, tourism, manufacturing, air transport, and agriculture are also being prioritized.
- **Pension measures.** The government is amending the Superannuation Act to allow accelerated access to members who have lost their jobs.

B. Monetary, Foreign Exchange, and Prudential Policy Measures

11. The Bank of Papua New Guinea (BPNG) has introduced appropriate measures to support liquidity and credit in the economy:

- Cutting the BPNG policy rate from 5 percent to 3 percent and instructing banks to pass this on to their key lending rates;

- Reducing the cash reserve requirement from 10 percent to 7 percent;
- Suspending provisioning requirements on bank loans covered by a 3-month loan debt service moratorium for borrowers badly affected by COVID-19 effects;
- Initiating purchases of government securities held by the private sector over the next 3 months.

12. Prudential standards should not be compromised. Asset classification and provisioning standards should be maintained. The BPNG should continue to strengthen its capacity for liquidity, foreign exchange, and market risk supervision, and, given heightened public debt vulnerabilities, an immediate priority should be collecting data on SOE balance sheets.

13. Moving towards restoring currency convertibility and exchange rate flexibility, consistent with the understandings in the SMP, continues to be a priority to address FX shortages and an orderly reduction of the FX backlog. This is particularly important in the non-resource sector, to promote agricultural employment, output, and exports. If commodity prices remain low, the shortage of FX could put pressure on the exchange rate and result in financial outflows and a disorderly depreciation of the currency. Staff advise BPNG to facilitate more rapid adjustment in the exchange rate vis-à-vis the US dollar, noting that, in the past year, the kina has appreciated by over 7 percent against the Australian dollar.

C. Transparency and Accountability

14. The government has committed to ensuring high standards of transparency and accountability for spending in relation to COVID-19. As indicated in the Letter of Intent, the authorities have acted to implement specific arrangements to strengthen transparency and accountability before drawing on the RCF (prior actions, Box 2): details of COVID-related government spending are posted on the National Procurement Commission website, and weekly reports are provided to the Budget Management Committee. Moreover, a consolidated report will be provided to the National Executive Council within three months of the end of the State of Emergency and an independent audit completed within a year.

FUND SUPPORT AND CAPACITY TO REPAY

15. The authorities are requesting a disbursement under the RCF equivalent to 100 percent of quota (SDR 263.2 million or about US\$364 million) to help address an urgent balance of payments need. The authorities are requesting that this financing be made available in its entirety as budget support.² The urgent balance of payments need triggered by the COVID-19 pandemic is caused primarily by sudden exogenous shocks, not by a withdrawal of financial support by donors, and is expected to resolve within the next 12 months without major policy adjustments, as global growth recovers and resource prices revert to the pre-COVID path. The proposed disbursement

² Given that the financing under the RCF will be used in its entirety to provide budget support, the Treasury and the BPNG have concluded a Memorandum of Understanding on their respective roles and responsibilities for servicing financial obligations to the Fund.

of 100 percent of quota is 54 percent of the estimated financing gap after the expected draw-down of reserves.

16. An updated DSA puts PNG at high risk of debt distress, with no access to external market finance³. Consequently, PNG does not qualify as a presumed blender and may access PRGT resources exclusively. The high risk of debt distress results from the adverse impact of the COVID-19 shock on GDP, fiscal deficits, and public debt, leading to higher debt-to-GDP and debt service-to-revenue paths than in the February 2020 Article IV/SMP DSA. However, public debt is still assessed to be sustainable, conditional on the implementation of prudent fiscal policies and commitments in the SMP. The authorities are considering requesting debt relief under the G20 Debt Service Suspension Initiative (DSSI). The impact is expected to be limited, however, as the maximum eligible debt service due in 2020 is US\$55.6 million.

17. RCF funds will be disbursed to the central bank and on-lent to the government, and the BPNG commits to a safeguards assessment. In addition to implementing a Memorandum of Understanding covering the on-lending of RCF funds to the Treasury by the BPNG, the authorities commit to undergo a safeguards assessment as soon as feasible, to provide Fund staff with the most recent central bank audit reports, and to authorize the external auditors of the BPNG to hold discussions with staff.⁴

18. PNG's capacity to repay the Fund is adequate (Table 8). Based on an RCF disbursement of SDR 263.2 (100 percent of quota), obligations to the Fund would peak in 2026 at 52.7 million SDRs (20 percent of IMF quota). This represents 1.5 percent of government revenue, 0.6 percent of exports of goods and services and 2 percent of gross international reserves. Papua New Guinea's commitment to fiscal sustainability in the medium term under the SMP and to macroeconomic stability suggest that repayment risks are contained. Over the longer term, Staff consider that PNG's public debt is sustainable, particularly in view of the likelihood of major resource projects going ahead within the coming decade.

AUTHORITIES' VIEWS

19. The authorities believe that their strong mitigation measures have reduced the risks of a COVID-19 outbreak in PNG. Nonetheless, they recognize that significant domestic risks remain, and that the global recession could last longer.

20. The fiscal strategy is to keep the current spending envelope unchanged, making reallocations within the envelope and cutting administration costs where possible. The authorities emphasized that they aim to ensure that they can address additional COVID-19 spending needs if

³ With the weakened external competitiveness and fiscal fundamentals, financing costs in external financing markets have increased.

⁴ The most recent audited accounts for the BPNG are for 2018 and have been provided to staff. The audit of the 2019 accounts is under way and is expected to be completed by mid-year.

necessary, including by tapping domestic markets for additional financing. Additional external borrowing from bilateral and IFI lenders is being sought to cover further potential revenue shortfalls.

21. The BPNG stressed that their support for the 3-month debt service moratorium for COVID-affected borrowers would involve no weakening of regulatory standards. For loans covered by the moratorium, provisioning requirements would be suspended for the same period. BPNG is consulting with PFTAC and MCM on further steps.

22. The authorities reiterated their commitment to the SMP, noting that they have completed most of the structural benchmarks due to date with only a short delay, including the prior actions for the RCF.

STAFF APPRAISAL

23. The COVID-19 pandemic is hitting the PNG economy hard, through measures to mitigate transmission of the virus and export losses. The crisis erupted as the government was beginning to implement wide-ranging measures under an SMP. The crisis has significantly worsened the fiscal and balance of payments outlook, but the authorities have re-affirmed their commitment to reform. In the near term, risks are primarily on the downside, especially if there is a widespread local outbreak. PNG's longer-term outlook remains positive, based on the SMP reform agenda and the likelihood that major resource projects will come to fruition in coming years.

24. The authorities have acted quickly to contain the health and economic fallout. Health measures focus on minimizing the risk of importing the virus, limiting domestic transmission, and preparing medical capacity to handle a wider outbreak. Macroeconomic measures focus on shifting budget resources into healthcare and supporting household and business balance sheets as earnings are disrupted.

25. The economic impact of COVID-19 has generated significant fiscal and BOP financing needs that require strong financial support from PNG's development partners. Lower resource export earnings are creating a large BOP shortfall, while measures to contain health risks are dampening activity, exports and government revenues. Efforts by the government to support health system and the economy are expected to lead to substantial budget deficits. With little space for domestic financing and limited access to external commercial finance, PNG is heavily dependent on development partners.

26. Staff supports the authorities' request for a disbursement of SDR 263.2 million (100 percent of quota) under the RCF to address the urgent balance of payments need. This would contribute substantially, together with support from other multilateral and bilateral donors, to addressing the urgent balance of payments need and large fiscal gaps caused by COVID-19. Staff commends the authorities for the implementation of the prior actions, notably measures to ensure strong transparency and accountability for COVID-related government spending. Continued strong commitment will remain essential.

Table 1. Papua New Guinea: Selected Economic and Financial Indicators, 2016-2025

Nominal GDP (2016):	US\$21.1 billion 1/									
Population (2016):	7.9 million									
GDP per capita (2016):	US\$2,568									
Quota:	SDR 263.2 million									
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Est.			Proj.						
	(Percentage change)									
Real sector										
Real GDP growth	4.1	3.5	-0.8	5.0	-1.7	0.3	1.4	3.7	3.8	3.4
Resource 2/	9.8	7.9	-9.3	9.7	-3.0	0.8	1.8	1.7	1.5	1.2
Non-resource	1.5	1.5	3.4	2.9	-1.0	0.0	1.2	4.7	4.8	4.4
Mining and quarrying (share)	9.0	10.2	10.6	10.3	11.8	11.9	12.3	11.9	11.5	11.2
Oil and gas extraction (share)	14.8	16.5	16.8	17.7	12.8	14.5	14.7	14.4	14.0	13.7
CPI (annual average)	6.7	5.4	4.7	3.6	3.7	3.6	4.9	4.1	3.0	2.9
CPI (end-period)	6.6	4.7	4.8	2.9	3.3	4.2	5.0	3.4	2.9	2.9
	(In percent of GDP)									
Central government operations										
Revenue and grants	16.1	15.9	17.8	15.4	14.1	15.6	16.0	16.2	16.5	16.8
<i>Of which</i> : Resource revenue	0.6	0.9	1.7	1.5	0.2	0.8	0.7	0.7	0.6	0.6
Expenditure and net lending	20.9	18.4	20.4	19.5	20.4	20.5	20.1	19.8	19.7	19.8
Net lending(+)/borrowing(-)	-4.7	-2.5	-2.6	-4.1	-6.4	-5.0	-4.1	-3.7	-3.2	-3.1
Non-resource net lending(+)/borrowing(-)	-5.4	-3.4	-4.3	-5.7	-6.6	-5.7	-4.8	-4.4	-3.9	-3.7
	(Percentage change)									
Money and credit										
Domestic credit	24.6	-0.1	-7.9	12.7	6.3	6.2	6.9	6.9	5.9	7.8
Credit to the private sector	7.2	-3.8	7.4	10.5	2.9	3.2	6.0	8.4	7.4	7.7
Broad money	10.9	-0.9	-3.8	9.6	0.6	8.0	9.2	9.2	4.7	6.7
Interest rate (182-day T-bills; period average)	7.4	7.1	7.0	6.5	4.8	4.5	5.7	6.1	5.2	5.0
	(In billions of U.S. dollars)									
Balance of payments										
Exports, f.o.b.	8.7	10.4	10.2	11.3	9.6	11.2	11.6	12.0	12.4	12.9
<i>Of which</i> : Resource sector	7.3	8.9	8.9	9.8	8.5	9.8	10.1	10.4	10.8	11.2
Imports, c.i.f.	-1.8	-2.5	-2.5	-3.6	-3.8	-4.2	-4.5	-4.7	-4.9	-5.0
Current account (including grants)	6.1	6.8	6.3	5.5	3.5	4.4	4.2	4.2	4.4	4.6
(In percent of GDP)	29.4	29.9	26.1	22.0	14.6	18.6	17.6	16.5	16.2	16.3
Gross official international reserves	1.7	1.7	2.2	2.0	1.7	1.9	2.0	2.1	2.5	2.9
(In months of goods and services imports)	5.4	5.2	5.2	4.7	3.5	3.5	3.5	3.6	4.1	4.8
	(In percent of GDP)									
Government debt										
Government gross debt	33.7	32.5	36.8	39.0	43.5	45.6	46.9	45.6	44.2	42.6
External debt-to-GDP ratio (in percent) 3/	8.5	8.8	15.2	16.5	21.4	24.3	26.1	26.6	27.0	27.1
External debt-service ratio (percent of exports) 3/	2.1	2.1	2.1	3.5	7.1	4.0	2.6	3.3	3.4	3.3
Exchange rates										
US\$/kina (end-period)	0.3150	0.3095	0.2970	0.2935	...	...	...	...	...	...
NEER (2005=100, end-period)	101.2	98.6	95.5	96.2	...	...	...	...	...	...
REER (2005=100, end-period)	121.1	122.3	121.8	125.1	...	...	...	...	...	...
Terms of trade (2010=100, end-period)	59.6	58.4	57.8	60.6	69.9	75.6	74.0	73.4	72.9	71.5
Nominal GDP (in billions of kina)	65.0	72.5	79.2	84.7	83.2	88.8	94.9	101.8	108.3	115.0
Non-resource nominal GDP (in billions of kina)	49.5	53.1	57.4	61.0	62.7	65.4	69.3	75.1	80.6	86.4

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, 2016-2025
(In millions of Kina)

	2016	2017	2018	2019	2020	2020	Δ	2021	2021	2022	2023	2024	2025
			Prel.	Proj.	Pre-COVID	Post-COVID	Change	SMP			Proj.		
								SMP					
Revenue and Grants	10,486	11,525	14,086	13,022	13,905	11,684	-2,221	15,076	13,820	15,169	16,460	17,877	19,293
Taxes	8,422	9,141	10,435	10,448	11,242	10,170	-1,072	12,105	11,225	12,480	13,743	15,036	16,324
Taxes on income, profits, and capital gains	5,286	5,317	6,119	5,984	6,422	5,749	-673	7,129	6,249	6,896	7,601	8,523	9,433
Taxes on payroll and workforce	14	11	9	2	0	0	0	0	0	0	0	0	0
Taxes on goods and services	2,584	3,255	3,496	3,693	4,016	3,816	-200	4,098	4,098	4,664	5,302	5,641	5,987
Taxes on international trade and transactions	537	558	811	770	804	604	-199	879	879	920	841	872	904
Grants	1,430	1,440	1,836	943	932	932	0	1,021	995	1,064	1,041	1,108	1,176
Other Revenue 1/	634	944	1,685	1,631	1,732	582	-1,149	1,950	1,600	1,625	1,675	1,734	1,793
Resource revenue	396	676	1,329	1,309	1,223	150	-1,073	1,074	672	688	696	703	710
Mining and Petroleum Taxes	92	114	775	759	523	150	-373	574	172	188	196	203	210
Mining and Petroleum and Gas Dividends	301	562	554	550	700	0	-700	500	500	500	500	500	500
Other Dividends	3	0	0	0	0	0	0	0	0	0	0	0	0
Grants from other general government units 2,	0	0	0	0	0	0	0	0	0	0	0	0	0
Non-resource revenue	10,090	10,849	12,757	11,713	12,683	11,534	-1,149	14,001	13,149	14,481	15,764	17,174	18,583
Expenditure 3/	13,572	13,320	16,134	16,526	16,984	16,984	0	18,236	18,236	19,048	20,199	21,379	22,812
Expense	12,157	12,005	14,543	13,856	14,287	14,532	245	14,323	14,323	14,965	15,585	16,470	17,602
Compensation of employees	4,463	4,376	5,198	5,324	5,365	5,365	0	5,573	5,573	5,782	5,992	6,353	6,743
Use of goods and services	4,103	4,138	4,879	4,332	4,050	3,650	-400	4,223	4,223	4,416	4,578	4,821	5,117
Interest	1,248	1,525	1,853	2,073	2,207	2,207	0	2,205	2,205	2,289	2,500	2,622	2,936
Grants 4/	1,897	1,383	2,000	1,514	2,241	2,241	0	1,790	1,790	1,890	1,890	2,011	2,134
Social benefits	0	0	1	0	0	0	0	65	65	71	81	86	91
Other expenses	446	582	611	613	425	425	0	467	467	518	545	578	580
COVID-Related Expenditure													
Net acquisition of non-financial assets	1,415	1,315	1,591	2,671	2,697	2,452	-245	3,913	3,913	4,083	4,613	4,909	5,210
Gross operating balance	-1,672	-480	-457	-833	-382	-2,848	-2,466	752	-503	204	875	1,407	1,691
Net lending (+)/borrowing (-)	-3,087	-1,795	-2,048	-3,504	-3,079	-5,300	-2,221	-3,161	-4,416	-3,879	-3,739	-3,502	-3,519
Primary balance	-1,839	-270	-195	-1,431	-872	-3,093	-2,221	-956	-2,211	-1,590	-1,239	-879	-583
Non-resource net lending (+)/borrowing (-)	-3,483	-2,471	-3,377	-4,813	-4,302	-5,450	-1,149	-4,235	-5,088	-4,567	-4,435	-4,205	-4,230
Non-resource primary balance	-2,235	-946	-1,524	-2,740	-2,095	-3,243	-1,149	-2,030	-2,883	-2,278	-1,935	-1,583	-1,293
Net financial transactions 5/	3,087	1,795	2,048	3,504	3,079	2,872	-207	3,161	4,416	3,879	3,739	3,502	3,519
Net acquisition of financial assets	857	-180	1,229	-1,229	0	0	0	0	0	0	0	0	0
Net acquisition of financial liabilities	3,944	1,614	3,277	2,275	3,079	2,872	-207	3,161	4,416	3,879	3,739	3,502	3,519
Domestic	2,495	736	-319	604	540	540	0	1,359	1,359	2,058	1,497	1,321	2,416
Treasury bills	1,934	531	-517	904	341	341	0	1,173	1,173	1,070	779	687	1,256
Treasury bonds	561	205	344	-300	300	300	0	611	611	988	719	634	1,160
Other accounts payable	0	0	-146	0	-101	-101	0	0	0	0	0	0	0
External	1,449	878	3,596	1,671	2,539	2,332	-207	2,432	2,241	1,820	2,241	2,181	1,103
Debt securities	0	0	1,672	0	0	0	0	0	0	0	0	0	0
Loans	1,449	878	1,924	1,671	2,539	2,332	-207	2,432	2,241	1,820	2,241	2,181	1,103
Financing gap					0	2,428	2,428						
Exceptional Financing					0	1,530	1,530						
IMF RCF					0	1,277	1,277						
World Bank/ADB					0	253	253						
Unidentified financing					0	898	898						
Gross government debt	21,944	23,558	29,120	33,024	37,611	36,088	-1,523	42,803	40,394	44,410	46,336	47,788	48,892
Domestic	16,437	17,173	17,103	19,053	19,039	18,378	-660	19,981	18,911	19,739	19,348	18,635	17,828
Treasury bills	8,664	9,194	8,678	9,685	9,875	10,026	151	11,048	11,199	12,269	13,048	13,735	14,991
Treasury bonds	7,773	7,979	8,322	8,022	8,322	8,353	30	8,933	7,713	7,470	6,300	4,900	2,837
External	5,507	6,385	12,017	13,972	18,573	17,709	-863	22,405	21,483	24,671	26,988	29,153	31,065
Debt securities	0	0	1,684	1,684	1,684	1,684	0	1,684	1,684	1,684	1,684	1,684	1,701
Loans	5,507	6,385	10,333	12,288	16,889	16,026	-863	20,722	19,799	22,987	25,304	27,469	29,364
Memorandum items:													
Gross government debt, percentage of GDP	33.7	32.5	36.8	39.0	40.8	43.4	2.6	42.4	45.5	46.8	45.5	44.1	42.5
Contingent liabilities 6/	2,812	2,819	2,835	2,853	2,879	2,853	-26	2,918	2,879	2,908	2,913	2,868	2,823
Nonresource GDP at current prices	49,518	53,139	57,417	60,982	65,995	62,722	-3,273	72,181	65,357	69,253	75,093	80,627	86,351
GDP at current prices	65,038	72,522	79,160	84,678	92,191	83,160	-9,031	100,974	88,786	94,899	101,830	108,342	115,002

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

1/ The 2015 other revenue includes infrastructure tax credit, recoveries from former years (mainly fees and charges) and asset sale.

2/ Withdrawals from the Stabilization Fund (mining and petroleum taxes; mining, petroleum and gas dividends.)

3/ As the authorities integrated the recurrent and development budgets from 2014 there is a discontinuity in the classification.

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

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

extrabudgetary units, and payment arrears and cash withdrawals from trust accounts which are not fully accounted for due to data weaknesses.

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

Table 2b. Papua New Guinea: Summary Operations of the Central Government, 2016-2025
(In percent of GDP)

	2016	2017	2018	2019	2020	2020	Δ	2021	2021	2022	2023	2024	2025
			Prel.	Proj.	Pre- COVID	Post- COVID	Change	SMP			Proj.		
Revenue and Grants	16.1	15.9	17.8	15.4	15.1	14.1	-1.0	14.9	15.6	16.0	16.2	16.5	16.8
Taxes	12.9	12.6	13.2	12.3	12.2	12.2	0.0	12.0	12.6	13.2	13.5	13.9	14.2
Taxes on income, profits, and capital gains	8.1	7.3	7.7	7.1	7.0	6.9	-0.1	7.1	7.0	7.3	7.5	7.9	8.2
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	0.0	0.0
Taxes on goods and services	4.0	4.5	4.4	4.4	4.4	4.6	0.2	4.1	4.6	4.9	5.2	5.2	5.2
Taxes on international trade and transactions	0.8	0.8	1.0	0.9	0.9	0.7	-0.1	0.9	1.0	1.0	0.8	0.8	0.8
Grants	2.2	2.0	2.3	1.1	1.0	1.1	0.1	1.0	1.1	1.1	1.0	1.0	1.0
Other Revenue 1/	1.0	1.3	2.1	1.9	1.9	0.7	-1.2	1.9	1.8	1.7	1.6	1.6	1.6
Resource revenue	0.6	0.9	1.7	1.5	1.3	0.2	-1.1	1.1	0.8	0.7	0.7	0.6	0.6
Mining and Petroleum Taxes	0.1	0.2	1.0	0.9	0.6	0.2	-0.4	0.6	0.2	0.2	0.2	0.2	0.2
Mining and Petroleum and Gas Dividends	0.5	0.8	0.7	0.6	0.8	0.0	-0.8	0.5	0.6	0.5	0.5	0.5	0.4
Other Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants from other general government units 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-resource revenue	15.5	15.0	16.1	13.8	13.8	13.9	0.1	13.9	14.8	15.3	15.5	15.9	16.2
Expenditure 3/	20.9	18.4	20.4	19.5	18.4	20.4	2.0	18.1	20.5	20.1	19.8	19.7	19.8
Expense	18.7	16.6	18.4	16.4	15.5	17.5	2.0	14.2	16.1	15.8	15.3	15.2	15.3
Compensation of employees	6.9	6.0	6.6	6.3	5.8	6.5	0.6	5.5	6.3	6.1	5.9	5.9	5.9
Use of goods and services	6.3	5.7	6.2	5.1	4.4	4.4	0.0	4.2	4.8	4.7	4.5	4.4	4.4
Interest	1.9	2.1	2.3	2.4	2.4	2.7	0.3	2.2	2.5	2.4	2.5	2.4	2.6
Grants 4/	2.9	1.9	2.5	1.8	2.4	2.7	0.3	1.8	2.0	2.0	1.9	1.9	1.9
Social benefits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Other expenses	0.7	0.8	0.8	0.7	0.5	0.5	0.1	0.5	0.5	0.5	0.5	0.5	0.5
COVID-Related Expenditure													
Net acquisition of non-financial assets	2.2	1.8	2.0	3.2	2.9	2.9	0.0	3.9	4.4	4.3	4.5	4.5	4.5
Gross operating balance	-2.6	-0.7	-0.6	-1.0	-0.4	-3.4	-3.0	0.7	-0.6	0.2	0.9	1.3	1.5
Net lending (+)/borrowing (-)	-4.7	-2.5	-2.6	-4.1	-3.3	-6.4	-3.0	-3.1	-5.0	-4.1	-3.7	-3.2	-3.1
Primary balance	-2.8	-0.4	-0.2	-1.7	-0.9	-3.7	-2.8	-0.9	-2.5	-1.7	-1.2	-0.8	-0.5
Non-resource net lending (+)/borrowing (-)	-5.4	-3.4	-4.3	-5.7	-4.7	-6.6	-1.9	-4.2	-5.7	-4.8	-4.4	-3.9	-3.7
Non-resource primary balance	-3.4	-1.3	-1.9	-3.2	-2.3	-3.9	-1.6	-2.0	-3.2	-2.4	-1.9	-1.5	-1.1
Net financial transactions 5/	4.7	2.5	2.6	4.1	3.3	3.5	0.1	3.1	5.0	4.1	3.7	3.2	3.1
Net acquisition of financial assets	1.3	-0.2	1.6	-1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of financial liabilities	6.1	2.2	4.1	2.7	3.3	3.5	0.1	3.1	5.0	4.1	3.7	3.2	3.1
Domestic	3.8	1.0	-0.4	0.7	0.6	0.6	0.1	1.3	1.5	2.2	1.5	1.2	2.1
Treasury bills	3.0	0.7	-0.7	1.1	0.4	0.4	0.0	1.2	1.3	1.1	0.8	0.6	1.1
Treasury bonds	0.9	0.3	0.4	-0.4	0.3	0.4	0.0	0.6	0.7	1.0	0.7	0.6	1.0
Other accounts payable	0.0	0.0	-0.2	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	2.2	1.2	4.5	2.0	2.8	2.8	0.0	2.4	2.5	1.9	2.2	2.0	1.0
Debt securities	0.0	0.0	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	2.2	1.2	2.4	2.0	2.8	2.8	0.0	2.4	2.5	1.9	2.2	2.0	1.0
Financing gap					0.0	2.9	2.9						
Exceptional Financing					0.0	1.8	1.8						
IMF RCF					0.0	1.5	1.5						
World Bank/ADB					0.0	0.3	0.3						
Unidentified financing					0.0	1.1	1.1						
Gross government debt	33.7	32.5	36.8	39.0	40.8	43.4	2.6	42.4	45.5	46.8	45.5	44.1	42.5
Domestic	25.3	23.7	21.6	22.5	20.7	22.1	1.4	19.8	21.3	20.8	19.0	17.2	15.5
Treasury bills	13.3	12.7	11.0	11.4	10.7	12.1	1.3	10.9	12.6	12.9	12.8	12.7	13.0
Treasury bonds	12.0	11.0	10.5	9.5	9.0	10.0	1.0	8.8	8.7	7.9	6.2	4.5	2.5
Loans			0.1	1.6	0.9	0.0	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
External	8.5	8.8	15.2	16.5	20.1	21.3	1.1	22.2	24.2	26.0	26.5	26.9	27.0
Debt securities	0.0	0.0	2.1	2.0	1.8	2.0	0.2	1.7	1.9	1.8	1.7	1.6	1.5
Loans	8.5	8.8	13.1	14.5	18.3	19.3	1.0	20.5	22.3	24.2	24.8	25.4	25.5
Memorandum items:													
Contingent liabilities 6/	4.3	3.9	3.6	3.4	3.1	3.4	0.3	2.9	3.2	3.1	2.9	2.6	2.5
Future unfunded superannuation liabilities	3.7	3.4	3.1	2.9	2.6	2.9	0.3	2.4	2.7	2.6	2.4	2.2	2.0
SOE borrowing	0.6	0.5	0.5	0.5	0.5	0.5	0.0	0.5	0.5	0.5	0.5	0.4	0.4
Nonresource GDP at current prices	49,518	53,139	57,417	60,982	65,995	62,722	-3,273	72,181	65,357	69,253	75,093	80,627	86,351
GDP at current prices	65,038	72,522	79,160	84,678	92,191	83,160	-9,031	100,974	88,786	94,899	101,830	108,342	115,002

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

1/ The 2015 other revenue includes infrastructure tax credit, recoveries from former years (mainly fees and charges) and asset sale.

2/ Withdrawals from the Stabilization Fund (mining and petroleum taxes; mining, petroleum and gas dividends.)

3/ As the authorities integrated the recurrent and development budgets from 2014 there is a discontinuity in the classification.

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

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

extrabudgetary units, and payment arrears and cash withdrawals from trust accounts which are not fully accounted for due to data weaknesses.

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

Table 3. Papua New Guinea: Balance of Payments, 2016-2025
(In millions of U.S. dollars)

	2016	2017	2018	2019SMP	2019	2020SMP	2020	2021SMP	2021	2022	2023	2024	2025
			Est.					Proj.					
Current account balance 1/	6,096	6,798	6,310	6,098	5,499	6,316	3,483	6,333	4,438	4,235	4,197	4,355	4,601
Resource	6,342	7,653	7,433	7,643	6,813	7,957	5,161	7,871	6,179	6,198	6,272	6,604	6,898
Nonresource	-246	-855	-1,123	-1,544	-1,314	-1,641	-1,678	-1,538	-1,741	-1,964	-2,075	-2,249	-2,315
Trade balance	6,858	7,948	7,620	7,473	7,630	7,756	5,841	7,872	7,068	7,150	7,321	7,533	7,857
Exports (f.o.b.)	8,694	10,447	10,153	10,788	11,280	11,316	9,649	11,555	11,222	11,634	12,017	12,416	12,877
Resource	7,261	8,853	8,869	9,650	9,830	10,038	8,488	10,028	9,824	10,136	10,429	10,809	11,182
Nonresource	1,434	1,594	1,284	1,138	1,449	1,278	1,161	1,527	1,398	1,498	1,588	1,607	1,695
Imports (f.o.b.)	-1,837	-2,499	-2,532	-3,315	-3,650	-3,560	-3,808	-3,683	-4,154	-4,484	-4,696	-4,883	-5,020
Resource	-918	-1,200	-1,436	-2,008	-1,528	-2,081	-1,840	-2,156	-2,007	-2,165	-2,337	-2,358	-2,382
Nonresource	-918	-1,299	-1,096	-1,307	-2,121	-1,479	-1,969	-1,527	-2,147	-2,319	-2,359	-2,525	-2,638
Services	-845	-1,069	-1,135	-1,235	-1,232	-1,315	-1,304	-1,418	-1,454	-1,619	-1,735	-1,779	-1,815
Income	-203	-324	-547	-729	-1,323	-751	-1,366	-787	-1,489	-1,612	-1,694	-1,731	-1,783
Current Transfers	286	243	371	589	425	626	312	666	312	316	305	332	342
Official	321	116	112	368	335	405	219	445	241	266	261	282	290
Private	-35	127	259	222	90	222	93	221	71	50	44	50	52
Capital and financial account balance	-6396	-6701	-5762	-6570	-5720	-6368	-4431	-6342	-4289	-4150	-4070	-3980	-4140
Capital account balance	6	28	28	29	2	28	47	29	48	49	50	50	53
Financial account balance	-6402	-6729	-5790	-6598.4	-5722	-6396	-4478	-6371	-4337	-4199	-4120	-4030	-4193
Direct investment	-30	2	-7	-683	-452	-756	-456	-830	-512	-564	-588	-606	-629
Portfolio investment	-48	-333	-216	-354	20	-364	22	-383	24	26	28	8	28
Other investment	-6,324	-6,398	-5,566	-5,561	-5,290	-5,276	-4,043	-2,658	-3,848	-3,661	-3,560	-3,433	-3,592
Loans (Net)	-37	-1,056	-574	-359	-212	-592	-186	-320	-298	-529	-501	-320	-321
Official	357	149	431	379	400	338	689	665	665	386	468	601	619
Private	-394	-1,205	-1,006	-738	-859	-930	-876	-986	-963	-915	-969	-921	-939
Commercial banks	-550	151	413	-225	-243	-52	-2	-8	33	123	164	142	178
Other private capital flows 2/	-5,344	-4,288	-4,399	-4,978	-4,835	-4,631	-3,855	-2,329	-3,584	-3,255	-3,222	-3,255	-3,417
Exceptional financing	0	0	0	0	0	0	0	0	0	0	0	0	0
Net errors and omissions	313	0	0	0	0	0	0	0	0	0	0	0	0
Overall balance	13	97	547	-472	-221	-51	-948	8	148	84	127	375	461
Financing	13	97	-547	472	221	51	290	8	-148	-84	-127	-375	-461
Reserve assets	13	97	-547	472	221	51	290	8	-148	-84	-127	-375	-461
Financing gap	0	0	0	0	0	0	657	0	0	0	0	0	0
Exceptional Financing							436						
IMF RCF							364						
WB/ADB							72						
Unidentified financing							221						
Memorandum items:													
Current account (in percent of GDP)	29.4	29.9	26.1	24.2	22.0	25.0	14.6	24.9	18.6	17.6	16.5	16.2	16.3
Resource	30.6	33.7	30.8	30.3	27.3	31.5	21.7	30.9	25.9	25.8	24.6	24.6	24.5
Nonresource	-1.2	-3.8	-4.7	-6.1	-5.3	-6.5	-7.1	-6.0	-7.3	-8.2	-8.1	-8.4	-8.2
Net international reserves (end-year)													
In millions of U.S. dollars	1,651	1,522	2,069	1,824	1,848	1,772	1,558	1,764	1,722	1,820	1,960	2,346	2,803
Gross international reserves (end-year)	1,681	1,682	2,230	2,002	2,009	1,951	1,718	1,942	1,867	1,951	2,078	2,452	2,913
In months of nonmineral sector imports	15.5	18.8	12.6	12.1	12.2	12.0	9.6	12.1	9.7	9.9	9.9	11.2	13.2
In months of imports of goods and services	5.4	5.2	5.2	4.7	4.7	4.3	3.5	3.9	3.5	3.5	3.6	4.1	4.8
Public external debt-service-exports ratio (in percent)	2.1	2.1	2.1	2.3	3.5	6.9	7.1	4.5	4.0	2.6	3.3	3.4	3.3
Public external debt-GDP ratio (in percent) 3/	8.5	8.8	14.9	15.7	16.5	15.8	20.4	16.5	22.1	22.9	22.5	22.0	21.8

Sources: Data provided by the Papua New Guinea authorities; and IMF staff estimates and projections.

1/ Includes staff's estimates related to the PNG LNG project.

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, 2016-2025

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Proj.						
(In millions of kina; end of period)										
Bank of Papua New Guinea										
Net foreign assets	4,716	5,026	6,856	6,195	5,443	6,402	7,200	7,380	9,469	11,428
Foreign assets	5,258	5,606	7,450	6,810	6,005	6,940	7,717	8,301	9,897	11,876
Foreign liabilities	542	580	594	615	562	539	517	470	428	448
Net domestic assets	1,716	337	-1,595	-1,566	-338	-373	-408	-441	-474	-1,506
Domestic credit	3,012	2,405	1,119	1,013	912	814	720	631	544	461
Net credit to government	2,858	2,369	1,088	982	880	783	689	599	513	430
Claims	3,567	2,852	2,646	2,540	2,438	2,341	2,247	2,157	2,071	1,988
Central government deposits	708	483	1,558	1,558	1,558	1,558	1,558	1,558	1,558	1,558
Credit to other sectors	154	36	31	31	31	31	31	31	31	31
Other items, net	-1,297	-2,068	-2,714	-2,579	-1,250	-1,187	-1,128	-1,072	-1,018	-1,967
Of which: Central bank securities	-1,361	-2,092	-2,405	-2,284	-1,107	-1,052	-999	-949	-902	-1,743
Reserve money	6,431	5,363	5,261	5,069	4,531	5,361	6,028	6,568	8,126	9,070
Currency in circulation	2,115	2,076	2,154	2,111	1,989	2,044	2,103	2,172	2,224	2,272
Deposits of other depository corporations	4,316	3,287	3,106	2,958	2,542	3,317	3,925	4,396	5,902	6,798
Required reserves	2,125	2,118	2,049	2,046	2,065	2,300	2,546	2,792	3,118	3,545
Excess reserves	2,191	1,169	1,058	912	477	1,017	1,379	1,604	2,784	3,253
Other deposits	0	0	0	0	0	0	0	0	0	0
(In millions of kina; end of period)										
Depository Corporations Survey										
Net foreign assets	4,928	5,498	7,007	6,374	5,028	5,904	6,616	7,203	8,806	10,794
Net domestic assets	17,489	16,710	14,361	17,035	18,530	20,098	21,958	23,939	25,759	28,283
Domestic credit	22,929	22,907	21,100	23,774	25,269	26,837	28,697	30,677	32,498	35,021
Net credit to central government	9,009	9,147	6,806	8,239	9,358	10,491	11,517	12,248	12,885	14,084
Claims on other sectors	13,920	13,761	14,294	15,535	15,911	16,346	17,180	18,429	19,613	20,937
Claims on the private sector	11,379	10,945	11,759	12,989	13,360	13,787	14,609	15,841	17,008	18,316
Other items, net	-5,440	-6,198	-6,739	-6,739	-6,739	-6,739	-6,739	-6,739	-6,739	-6,739
Broad money	22,417	22,208	21,368	23,410	23,558	26,002	28,574	31,142	34,566	39,077
Narrow money	16,032	16,283	15,780	18,043	18,403	21,051	23,819	26,574	30,178	34,863
Currency outside other depository corporations	1,580	1,523	1,579	1,516	1,455	1,397	1,341	1,288	1,236	1,187
Demand deposits	14,452	14,759	14,201	16,527	16,948	19,654	22,477	25,286	28,942	33,676
Quasi-money	6,323	5,863	5,526	5,305	5,093	4,889	4,693	4,506	4,325	4,152
Securities other than shares	62	62	62	62	62	62	62	62	62	62
(Annual percentage change)										
Net foreign assets	-16.1	11.6	27.4	-9.0	-21.1	17.4	12.1	8.9	22.3	22.6
Net domestic assets	21.9	-4.5	-14.1	18.6	8.8	8.5	9.3	9.0	7.6	9.8
Net domestic credit	24.6	-0.1	-7.9	12.7	6.3	6.2	6.9	6.9	5.9	7.8
Of which: Private sector	7.2	-3.8	7.4	10.5	2.9	3.2	6.0	8.4	7.4	7.7
Broad money	10.9	-0.9	-3.8	9.6	0.6	10.4	9.9	9.0	11.0	13.1
Memorandum items:										
Reserve money (percentage change)	24.4	-16.6	-1.9	-3.7	-10.6	18.3	12.4	9.0	23.7	11.6
Gross international reserves (in millions of U.S. dollars)	1,681	1,717	2,235	2,009	1,718	1,867	1,951	2,078	2,452	2,913
Nominal nonresource GDP/Broad money	2.2	2.4	2.7	2.6	2.7	2.5	2.4	2.4	2.3	2.2

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

Table 5. Papua New Guinea: Medium-Term Scenario, 2016-2025

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Est.	Est.	Proj.							
	(Percentage change)									
Growth and prices										
Real GDP 1/	4.1	3.5	-0.8	5.0	-1.7	0.3	1.4	3.7	3.8	3.4
Resource	9.8	7.9	-9.3	9.7	-3.0	0.8	1.8	1.7	1.5	1.2
Nonresource	1.5	1.5	3.4	2.9	-1.0	0.0	1.2	4.7	4.8	4.4
CPI (period average)	6.7	5.4	4.7	3.6	3.7	3.6	4.9	4.1	3.0	2.9
CPI (end-period)	6.6	4.7	4.8	2.9	3.3	4.2	5.0	3.4	2.9	2.9
	(In percent of GDP, unless otherwise indicated)									
Central government operations										
Total revenue and grants	16.1	15.9	17.8	15.4	14.1	15.6	16.0	16.2	16.5	16.8
Total revenue	13.9	13.9	15.5	14.3	12.9	14.4	14.9	15.1	15.5	15.8
Of which: Resource revenue	0.6	0.9	1.7	1.5	0.2	0.8	0.7	0.7	0.6	0.6
Grants	2.2	2.0	2.3	1.1	1.1	1.1	1.1	1.0	1.0	1.0
Total expenditure	20.9	18.4	20.4	19.5	20.4	20.5	20.1	19.8	19.7	19.8
Expense	18.7	16.6	18.4	16.4	17.4	16.1	15.8	15.3	15.2	15.3
Net acquisition of nonfinancial assets	2.2	1.8	2.0	3.2	3.0	4.4	4.3	4.5	4.5	4.5
Primary balance	-2.8	-0.4	-0.2	-1.7	-3.7	-2.5	-1.7	-1.2	-0.8	-0.5
Nonresource net lending(+)/borrowing(-) (Revenue - expenditure)	-5.4	-3.4	-4.3	-5.7	-6.6	-5.7	-4.8	-4.4	-3.9	-3.7
Net lending(+)/borrowing(-) [Overall balance]	-4.7	-2.5	-2.6	-4.1	-6.4	-5.0	-4.1	-3.7	-3.2	-3.1
Nonresource primary balance (in percent of nonresource GDP)	-3.4	-1.3	-1.9	-3.2	-3.9	-3.2	-2.4	-1.9	-1.5	-1.1
Gross public debt 2/	33.7	32.5	36.8	39.0	43.5	45.6	46.9	45.6	44.2	42.6
Domestic	25.3	23.7	21.6	22.5	22.1	21.3	20.8	19.0	17.2	15.5
External	8.5	8.8	15.2	16.5	21.4	24.3	26.1	26.6	27.0	27.1
	(In millions of U.S. dollars, unless otherwise indicated)									
Balance of payments 3/										
Exports, f.o.b.	8,694	10,447	10,153	11,280	9,649	11,222	11,634	12,017	12,416	12,877
Of which: Resource	7,261	8,853	8,869	9,830	8,488	9,824	10,136	10,429	10,809	11,182
Imports, c.i.f.	-1,837	-2,499	-2,532	-3,650	-3,808	-4,154	-4,484	-4,696	-4,883	-5,020
Current account	6,096	6,798	6,310	5,499	3,483	4,438	4,235	4,197	4,355	4,601
(In percent of GDP)	29.4	29.9	26.1	22.0	14.6	18.6	17.6	16.5	16.2	16.3
Overall balance (including exceptional financing)	13	97	547	-221	-1,086	148	84	127	375	461
Gross official reserves	1,681	1,717	2,235	2,009	1,718	1,867	1,951	2,078	2,452	2,913
(In months of goods and services imports, c.i.f.)	5.4	5.2	5.2	4.7	3.5	3.5	3.5	3.6	4.1	4.8
(In months of nonmining imports, c.i.f.)	7.9	8.1	9.0	12.2	9.6	9.7	9.9	9.9	11.2	13.2
Public external debt service-export ratio (in percent) 4/	2.1	2.1	2.1	3.5	7.1	4.0	2.6	3.3	3.4	3.3
<i>Memorandum items:</i>										
Nominal GDP (in millions of kina)	65,038	72,522	79,160	84,678	83,160	88,786	94,899	101,830	108,342	115,002
Nominal GDP (change in percent)	8.1	11.5	9.2	7.0	-1.8	6.8	6.9	7.3	6.4	6.1
Nominal GDP (in millions of U.S. dollars)	20,759	22,743	24,141	24,978	23,795	23,880	23,993	25,487	26,846	28,212
Assumed commodity prices: 5/										
Gold (U.S. dollars per ounce)	1,248	1,257	1,269	1,392	1,640	1,667	1,684	1,703	1,721	1,739
Copper (U.S. dollars per ton)	4,868	6,170	6,530	6,010	5,021	4,877	4,943	5,009	5,069	5,114
Liquefied Natural Gas Price Index (2005=100)	100	97	132	73	45	59	68	72	72	72
Oil (U.S. dollars per barrel)	42.84	52.81	68.33	61.39	35.61	37.87	40.90	43.17	45.01	46.44

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

1/ Real GDP growth projections are based on the chained Laspeyres measure.

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

3/ Includes staff's estimates related to the PNG LNG project.

4/ Public external debt service includes changes in check float.

3/ Measured from below the line in the fiscal accounts.

5/ IMF World Economic Outlook. Liquefied Natural Gas (LNG) price index is Indonesian LNG in Japan.

Table 6. Papua New Guinea: Financial Soundness Indicators, 2013-2019 1/
(In percent)

	2013	2014	2015	2016	2017	2018	2019*
Capital Adequacy							
Capital to risk-weighted assets 2/	27.9	34.5	33.4	37.0	39.9	37.0	34.9
Tier 1 capital to risk-weighted assets	21.0	27.2	27.6	29.8	32.9	29.3	28.6
Asset Quality							
Nonperforming loans to total loans	1.2	1.4	2.6	2.7	2.7	3.6	4.0
Past due loans to total loans	2.2	2.7	3.9	6.7	5.4	5.1	5.5
Provision for losses to NPL	288.0	240.9	143.8	164.5	180.0	142.9	125.0
Earnings and Profitability							
Return on assets	2.4	2.0	1.7	2.2	2.2		
Return on equity 3/	21.2	26.2	21.4	16.7	24.3		
Liquidity							
Liquid assets to total assets	55.2	51.5	49.0	46.9	47.5	44.3	42.8
Loan-to-deposit ratio	50.3	57.2	60.5	63.3	65.6	71.4	73.4
Other							
Capital to total assets 2/	15.2	16.1	15.4	16.3	18.4	18.4	17.8
Risk-weighted assets to total assets	54.5	46.8	46.2	43.9	46.1	49.7	51.1

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

1/ Fourth quarter data for each year.

2/ Capital base includes Tier 1 and 2 capital.

3/ Return on equity is calculated with Tier 1 capital.

* June 2019

Table 7. Papua New Guinea: External Financing Requirements and Sources, 2018-2025
(In millions of U.S. dollars, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025
Financing requirements	-6217	-5381	-2804	-4040	-4041	-3967	-4112	-4360
Current account deficit	-6310	-5499	-3483	-4438	-4235	-4197	-4355	-4601
Public sector loan amortization	93	118	679	397	194	230	242	241
Interest and amortization on existing IMF loans	0	0	0	0	0	0	0	0
Financing sources	-6217	-5381	-3462	-4040	-4041	-3967	-4112	-4360
Capital account balance	28	2	47	48	49	50	50	53
Net foreign direct investments	-7	-452	-456	-512	-564	-588	-606	-629
Portfolio inflows	-216	20	22	24	26	28	8	28
Public sector loan disbursements	874	745	1368	1063	646	247	96	20
Other capital flows (net)	-6347	-5917	-4733	-4514	-4113	-3578	-3287	-3371
Reserve accumulation (-=increase)	-547	221	290	-148	-84	-127	-375	-461
Financing gap	0	0	657	0	0	0	0	0

Sources: Papua New Guinea authorities and Fund Staff estimates.

Table 8. Papua New Guinea: Indicators of Capacity to Repay the Fund, 2020-2030

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Fund obligations based on existing credits											
(in millions of SDR)											
Principal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Fund obligations based on existing and prospective credits											
(in millions of SDR)											
Principal	0.0	0.0	0.0	0.0	0.0	26.3	52.6	52.6	52.6	52.6	26.3
Charges and interest	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total Fund obligations based on existing credit											
in millions of SDR	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
in percent of IMF quota	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Fund obligations based on existing and prospective credits											
in millions of SDRs	0.0	0.1	0.1	0.1	0.1	26.4	52.7	52.7	52.7	52.7	26.4
in millions of USD	0.0	0.1	0.1	0.1	0.1	36.4	72.8	72.8	72.8	72.8	36.4
in percent of government revenue	0.0	0.0	0.0	0.0	0.0	0.8	1.4	1.4	1.3	1.2	0.6
in percent of exports of goods and services	0.0	0.0	0.0	0.0	0.0	0.3	0.5	0.5	0.5	0.5	0.2
in percent of exports of gross international reserves	0.0	0.0	0.0	0.0	0.0	0.9	1.8	1.9	1.8	1.8	0.9
in percent of GDP	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.2	0.2	0.2	0.1
in percent of IMF Quota	0.0	0.0	0.0	0.0	0.0	10.0	20.0	20.0	20.0	20.0	10.0
Stock of Fund credit outstanding											
in millions of SDRs	263.2	263.2	263.2	263.2	263.2	236.9	184.2	131.6	79.0	26.3	0.0
in millions of USD	363.6	363.6	363.6	363.6	363.6	327.3	254.6	181.8	109.1	36.4	0.0
in percent of government revenue	10.9	9.8	9.5	8.8	8.2	6.9	5.0	3.4	1.9	0.6	0.0
in percent of exports of goods and services	3.7	3.2	3.0	3.0	2.9	2.5	1.9	1.3	0.8	0.2	0.0
in percent of exports of gross international reserves	21.2	19.5	18.6	17.5	14.8	11.2	8.9	6.4	3.8	1.2	0.0
in percent of GDP	1.5	1.5	1.5	1.4	1.4	1.2	0.9	0.6	0.3	0.1	0.0
in percent of IMF Quota	100.0	100.0	100.0	100.0	100.0	90.0	70.0	50.0	30.0	10.0	0.0
Net use of Fund Credit (millions of SDR)	263.2	0.0	0.0	0.0	0.0	-26.3	-52.6	-52.6	-52.6	-52.6	-26.3
Disbursements	263.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	0.0	0.0	0.0	0.0	0.0	26.3	52.6	52.6	52.6	52.6	26.3
Memorandum items											
Nominal GDP (millions of USD)	23,795	23,880	23,993	25,487	26,846	28,212	29,623	31,115	33,007	35,024	37,174
Exports of goods and services (millions of USD)	9,926	11,506	11,925	12,316	12,723	13,190	13,636	14,081	14,509	14,943	15,403
Government revenue (millions of USD)	3,343	3,717	3,835	4,120	4,430	4,733	5,062	5,315	5,634	5,972	6,330
Gross international reserves (millions of USD)	1,718	1,867	1,951	2,078	2,452	2,913	2,856	2,844	2,866	2,918	3,014
IMF Quota (millions of SDR)	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 estimates and calculations.

Annex I. Balance of Payments Financing

Table 1. Papua New Guinea: 2020 Financing Needs and Sources
(In millions of U.S. dollars, unless otherwise indicated)

	2019 SMP ¹	2019	2020 SMP	2020	2021 SMP	2021
I. Current Account Balance²	6,098	5,499	6,316	3,483	6,333	4,438
Trade Balance	7,473	7,630	7,756	5,841	7,872	7,068
Exports of goods	10,788	11,280	11,316	9,649	11,555	11,222
<i>LNG</i>	4,312	4,112	4,346	2,864	3,836	3,447
<i>Gold</i>	2,790	3,087	3,111	3,534	3,086	3,960
<i>copper</i>	509	658	614	464	512	561
Imports of goods	(3,315)	(3,650)	(3,560)	(3,808)	(3,683)	(4,154)
Services (net)	(1,235)	(1,232)	(1,315)	(1,304)	(1,418)	(1,454)
Exports	267	294	273	277	279	284
Imports	(1,503)	(1,526)	(1,589)	(1,580)	(1,697)	(1,738)
Income (net)	(729)	(1,323)	(751)	(1,366)	(787)	(1,489)
Credit	44	67	45	69	47	70
Debit ³	(774)	(1,391)	(796)	(1,434)	(834)	(1,560)
Private transfers (net)	222	90	222	93	221	71
Official transfers (net)	368	335	405	219	445	241
II. Capital and Financial Account balance	(6,570)	(5,720)	(6,368)	(4,431)	(6,342)	(4,289)
Capital account balance	29	2	28	47	29	48
Foreign Direct investment⁴	(683)	(452)	(756)	(456)	(830)	(512)
Portfolio investment (net)	(354)	20	(364)	22	(383)	24
Other investment (net)	(5,561)	(5,290)	(5,276)	(4,043)	(2,658)	(3,848)
Loans	(359)	(212)	(592)	(186)	(320)	(298)
Government (net)	379	400	338	689	665	665
<i>Disbursements</i>	653	653	1,137	1,368	1,063	1,063
<i>Amortization</i>	(274)	(254)	(675)	(679)	(397)	(397)
Private sector (net)	(738)	(859)	(930)	(876)	(986)	(963)
Others (net) ⁵	(5,202)	(5,079)	(4,684)	(3,857)	(2,337)	(3,550)
III. Overall Balance	(472)	(221)	(51)	(948)	(8)	148
IV. Reserves (-:increase)	472	(221)	52	290	8	(148)
IV. Financing gap	472	(221)	52	657	8	(148)
IMF emergency financing	-	-	-	364	-	-
MDBs	-	-	-	72	-	-
Bilateral Creditors	-	-	-	-	-	-
V. Residual Financing gap	0	0	0	221	0	0

1/ 2019 data also have been revised after the SMP.

2/ Current account balance in this table excludes prospective grant financing.

3/ Income account debit increase is mainly due to statistical revision introduced this year related to financing account.

4/ Negative FDI represents within-company repayments of the LNG project companies.

5/ Includes capital flows via commercial banks and other private sectors.

Appendix I. Letter of Intent

18 May 2020

Ms. Kristalina Georgieva

Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Managing Director,

SUBJECT: LETTER OF INTENT FOR PAPUA NEW GUINEA REQUESTING SUPPORT FROM THE INTERNATIONAL MONETARY FUND (IMF) TO RESPOND TO CORONAVIRUS (COVID-19)

We are writing to you to formally request through this Letter of Intent for support under the IMF's Rapid Credit Facility (RCF).

As you are aware, COVID-19 has already started to impact the Papua New Guinean economy and budget. Preliminary modelling indicate economic growth is likely to fall to below zero this year. This will push PNG into a recession, driven by the fall in world growth as well as the impacts of shut-down measures on tourism, retail trade and other parts of our economy. Export earnings are expected to fall by 13 per cent, which will make foreign exchange shortages even more acute.

The sustained low oil and copper prices will lead to major reductions in resource revenues. While the economic slow-down and people losing their jobs will lower personal income tax, company income tax and GST collections. The estimated K2,000 million fall in revenues will exacerbate the existing K4,631 million budget deficit to require more funding.

Our country's health response remains well advanced. The country's National Emergency Response (NER) is designed to reduce the risks of COVID-19 gaining a foothold in Papua New Guinea. The Government initially set aside K45 million to assist increased testing and quarantine facilities.

We've agreed an additional K240 million (US\$70 million) from the World Bank and the Asian Development Bank to support implementing the NER. It's likely more funding will be required in case of a widespread outbreak to bolster these activities and import needed medicines and extra personal protective equipment.

That's why our National Executive Council recently agreed to a K5.7 billion Economic Stimulus Package (ESP). This is the largest economic action plan in response to a crisis in PNG's history and is equivalent to 6 per cent of PNG's economy. This will ensure there's sufficient budgetary support for the health response and shield the budget.

Under recently implemented emergency COVID-19 directions, the government's State of Emergency Controller posts details of all procurements awarded on the government procurement website (<http://www.procurement.gov.pg/>) within a week of procurement, including the names of the entities awarded the contract and their beneficial owners, the specific nature of the goods or services procured, their price per unit, and the overall contract amount, as well as reports of ex-post validation of delivery. The relevant information through May 11 has been posted on May 18 (prior action). Additionally, the Government has recently ensured that COVID-19 expenditure reports are presented to the Budget Management Committee on a weekly basis with the first report circulated on May 18 (prior action).

A consolidated report will be submitted to the National Executive Council and published within three months of the end of the emergency. The government further commits to commission and publish an audit, conducted by a reputable independent auditor, of COVID-related spending within a year of the end of the emergency.

The ESP will use a mix of monetary and regulatory policies and leverage our close links with trusted international partners. This will be a nimble, responsive and responsible approach to build our country's economic resilience without unnecessarily increasing our exposure to an unsustainable debt burden. Steps include cutting back expenditure in less essential areas to be redirected to priority health, security and economic sectors. Its focus will be broad and comprehensive to cover rural and urban households and businesses of all sizes with practical steps to build our country's economic capacity. Such measures are essential to achieving the government's growth and poverty objectives under the Sustainable Development Goals.

The ESP builds and reinforces the Marape-Steven Government's budgetary, economic and structural reforms in the 2020 Budget. This was a realistic budget that put more foreign exchange resources into the market to combat a chronic foreign exchange shortage, allocated funds to reduce the arrears to business, a reform plan of our SOEs, supported and endorsed by the Asian Development Bank, a package of significant new tax policy measures and prioritized capital spending.

These reforms were included in the Staff-Monitored Program. This was a substantial milestone for the Marape-Steven Government to re-engage with the IMF staff. The IMF staff may be monitoring the program, but it is PNG's program. That's why the Government remains deeply committed to achieving the program objectives. The government remains committed to returning to expenditure restraint and revenue mobilization to be able to gradually reduce the debt-to-GDP ratio to the long-term target of 30 percent.

The government remains committed to moving the Kina back to a fully convertible and flexible currency. And the government remains committed to structural reforms essential to the long-term growth and development of our economy, including the updated Medium-Term Revenue Strategy, comprehensive reform of the State-Owned Enterprise sector, and strengthening of public sector governance and anti-corruption frameworks.

Our government remains deeply committed to pursuing and implementing structural reforms under the SMP despite the COVID-19 crisis.

To demonstrate our commitment to implementing reforms in key areas, we have completed two specific reform measures under the SMP as prior actions for drawing on the RCF. The first is for the Medium-Term Revenue Strategy Steering Committee, chaired by the Treasury, to set explicit objectives and milestones for the Internal Revenue Commission (IRC) to be achieved in 2020, based on the IRC Annual Plan. The Steering Committee approved a set of objectives and milestones on May 13 (prior action). The second is for the Treasury to share information necessary for effective liquidity management to the Bank of Papua New Guinea (BPNG). Specifically, Treasury has begun to provide from May 4 a cashflow workbook including projections for spending and debt-service payments, as well as projected revenues, debt issuance, donor grants and external loan disbursements, with the most recent provided to BPNG on May 15 (prior action).

The COVID-19 shock has left a huge hole in Papua New Guinea's external finances and the budget. We estimate the balance of payments financing gap and the fiscal hole at around US\$700 million. The scale of this financing challenge means we request a disbursement of SDR 263.2 million (100 per cent of our quota) under the RCF. This is needed to meet urgent balance of payments and fiscal needs arising from the export market deterioration and the decline in the domestic economy caused by the COVID-19 outbreak, as well as the need to finance COVID-related spending and imports.

Given the magnitude of the budgetary financing gap we further request that the disbursement be made fully available for use by the Treasury in responding to the COVID-19 crisis, as proposed in the attached Memorandum of Understanding between the BPNG and Ministry of Treasury. The government will also consider seeking debt relief on eligible debt, under the G-20 COVID-19 debt relief initiative.

Finally, the government is seeking additional external financing from multilateral and bilateral partners to offset the remaining financing needs.

The Government does not intend to introduce measures or policies that would exacerbate balance of payments difficulties, including not to introduce or intensify exchange and trade restrictions that would compound these difficulties. This includes entering into multiple currency practices or entering into agreements inconsistent with Article VIII of the IMF articles of agreement.

The Bank of Papua New Guinea also commits to undergo an IMF safeguards assessment and to provide IMF staff with access to its most recently completed external audit reports and to authorize

its external auditors to hold discussions with Fund staff. We will also sign the Memorandum of Understanding between the Department of Treasury and the Bank of Papua New Guinea to ensure the timely servicing of any financial obligations with the IMF.

We authorize the IMF to publish this Letter of Intent for request for disbursement under the RCF, together with the associated Staff Report.

We thank you for your assistance and support as we work together in supporting Papua New Guinea respond to COVID-19.

Yours sincerely

/s/

Hon Ian Ling-Stuckey CMG, MP.
Minister for Treasury

/s/

Loi Bakani
Governor of Bank of PNG

cc: Hon. Jelta Wong MP, Minister for Health & HIV/AIDS
Mr Dairi Vele, Secretary to Treasury
Mr Nigel Ray, Executive Director, IMF
Mr Scott Roger, Deputy Division Chief, Pacific Islands Division, IMF

Table 1. Papua New Guinea: Prior Actions for the Request for Disbursement Under the RCF

Measure	Scheduled Completion Date	Macroeconomic Justification
Posts details of all procurements awarded on the government procurement website within a week of procurement, including the names of the entities awarded the contract and their beneficial owners, the specific nature of the goods or services procured, their price per unit, and the overall contract amount, as well as reports of ex-post validation of delivery.	Completed. Contract details are posted on http://www.procurement.gov.pg/	This measure helps ensure that funds intended for COVID-related use are spent as intended and that proper due diligence is taken in the awarding of contracts.
COVID-19 expenditure reports are presented to the Budget Management Committee on a weekly basis.	Completed. First report was provided to Budget Management Committee on May 18.	This helps to ensure that effective oversight of COVID-19 expenditure is conducted at the highest level of macroeconomic management.
Medium-Term Revenue Strategy Steering Committee, chaired by the Treasury, to set explicit objectives and milestones for the Internal Revenue Commission (IRC) to be achieved in 2020, based on the IRC Annual Plan.	Completed. The Steering Committee approved a set of objectives and milestones on May 13.	This is essential to carry forward the revenue reform process in an efficient and effective manner.
Treasury to share information necessary for effective liquidity management to the Bank of Papua New Guinea (BPNG).	Completed. Since May 4, Treasury has been providing BPNG with a cashflow workbook, including projections for spending and debt-service payments, as well as projected revenues, debt issuance, donor grants and external loan disbursements.	A comprehensive cashflow projection is essential to Treasury to manage its cash position. It is also essential to share the information with BPNG so that it can construct systemic liquidity projections for liquidity management.



PAPUA NEW GUINEA

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

June 1, 2020

Approved By
**Jonathan D. Ostry and
Johannes Wiegand (IMF);
and Marcello Estevão (IDA)**

Prepared by the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA)^{1 2}

Risk of external debt distress	High ³
Overall risk of debt distress	High
Granularity in the risk rating	Sustainable
Application of judgment	No
Macroeconomic projections	GDP growth forecast reduced by 3.7 percentage points to -1.7 percent in 2020, and terms-of-trade shocks are incorporated.
Financing strategy	Limited room to draw down reserves. Reliance on concessional loans from international community.
Mechanical risk rating under the external DSA	High
Mechanical risk rating under the public DSA	High

¹ This joint World Bank/IMF Debt Sustainability Analysis (DSA) has been prepared in the context of the 2020 request for emergency financing from the IMF Rapid Credit Facility (RCF). The macro framework underlying this DSA has been updated from the 2019 Article IV staff report to reflect recent global and domestic developments. Both assessments on the overall risk and the risk of external debts have changed from moderate to high risk of distress as a result.

² The debt coverage of this DSA is the same as in the most recent DSA (published on April 7, 2020). It mainly includes the central government and local government debt. The debt figure does not fully capture implicit government guaranteed debts of state-owned enterprises (SOEs) and unfunded superannuation liabilities relating to pensions.

³ PNG's Composite Indicator score based on the October World Economic Outlook and 2019 CPIA measure indicates that the debt-carrying capacity is 'medium'.

External and overall debt are at high risk of debt distress. The shocks from COVID-19 pandemic, including the terms-of-trade shocks to the main exports (for instance, LNG and metals) are expected to reduce the current account surplus and exacerbate fiscal deficits resulting in a higher debt path compared to the 2019 Article IV DSA. However, the public debt is assessed to be on a sustainable path, conditional on the implementation of prudent fiscal policies following the commitments of the staff-monitored program.

The COVID-19 pandemic crisis is expected to heavily affect the prices of main exports, including LNG (-30.4%) and copper (-17%). Combined with weak external demands, the country is expected to experience a current account surplus reduction equivalent to 8.6 percent of GDP and larger fiscal deficits. The baseline scenario assumes that concessional loans from multilateral institutions and bilateral official creditors will help cover some of the health costs and financing needs triggered by the global health crisis. However, debt sustainability is subject to considerable downside risks, including from a more severe or prolonged impact of the COVID-19 shock.

The present value (PV) of public debt-to-GDP ratio remains high at over 40 percent, as fiscal deficits continue over the medium term on top of the elevated level of outstanding local debt. The PV of public and publicly-guaranteed (PPG) external debt-to-GDP ratio does not breach the threshold under the baseline scenario, but debt service-to-revenue ratio shows two short-lived breaches in 2020 and 2028, as bullet payments for private creditors and bond payments are due. The country is particularly vulnerable to export growth shocks under alternative scenario.

However, they are both projected to gradually decline as the forecast horizon advances. The PV of the public debt-to-GDP falls below 45 percent from 2024 and onwards. The first breach of the external debt service-to-revenue ratio is expected to be refinanced by other loans with concessional terms, but it is not certain to eliminate roll-over risks given the reduced external financing forecasts and a larger financing gap in 2020. Baseline projections also assume the authorities' continued efforts to boost revenue mobilization, including by achieving the structural benchmark of the staff-monitored program on medium-term revenue strategy (MTRS). Based on overall debt dynamics and policy perspectives, PPG external and public debts are deemed sustainable going forward.

Figure 1. Papua New Guinea: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2020-2030



Customization of Default Settings		
	Size	Interactions
Standardized Tests	Yes	
Tailored Stress		
Combined CL	Yes	
Natural disaster	n.a.	n.a.
Commodity Prices ^{2/}	No	No
Market financing	No	No

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

Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.9%	1.9%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	22	22
Avg. grace period	7	7

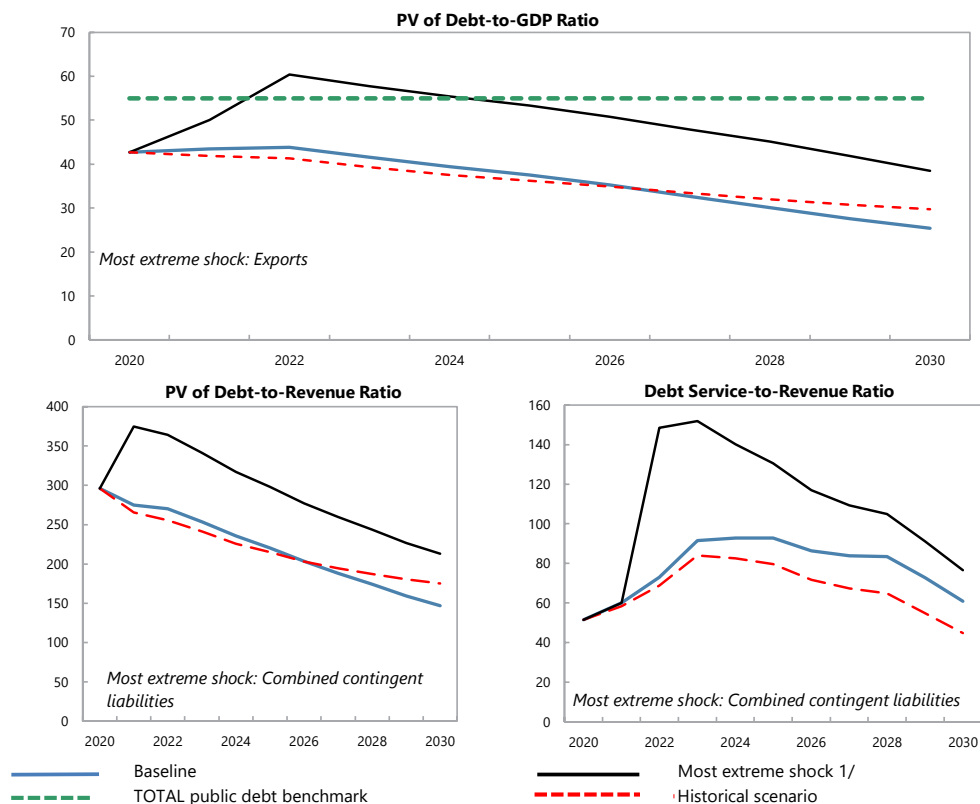
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Papua New Guinea: Indicators of Public Debt Under Alternative Scenarios, 2020-2030



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	22%	22%
Domestic medium and long-term	8%	8%
Domestic short-term	70%	70%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.9%	1.9%
Avg. maturity (incl. grace period)	22	22
Avg. grace period	7	7
Domestic MLT debt		
Avg. real interest rate on new borrowing	3.0%	3.0%
Avg. maturity (incl. grace period)	2	2
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	2.6%	2.6%

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 1. Papua New Guinea: External Debt Sustainability Framework, Baseline Scenario, 2017-2040

(In percent of GDP, unless otherwise indicated)

	Actual			Projections							Average 8/		
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
External debt (nominal) 1/ of which: public and publicly guaranteed (PPG)	72.8	71.3	60.5	54.9	57.6	59.1	57.7	56.5	55.1	45.5	29.1	77.0	53.8
	8.8	15.2	16.5	21.4	24.3	26.1	26.6	27.0	27.1	22.3	16.2	8.6	24.8
Change in external debt	-14.8	-1.5	-10.9	-5.5	2.7	1.5	-1.5	-1.1	-1.4	-2.0	-1.4	-7.2	-17.5
Identified net debt-creating flows	-33.4	-31.3	-25.4	-13.6	-18.7	-18.2	-18.5	-18.2	-18.3	-16.5	-12.0	-4.8	-17.3
Non-interest current account deficit	-30.2	-28.6	-26.9	-16.5	-20.7	-19.1	-17.8	-17.3	-17.3	-15.5	-11.3	-5.2	-21.1
Deficit in balance of goods and services	-27.5	-26.7	-24.9	-19.0	-23.4	-22.7	-21.7	-21.2	-21.4	-19.5	-14.0		
Exports	44.0	43.2	44.1	41.6	47.9	49.3	47.9	46.9	46.3	41.0	29.6		
Imports	16.5	16.5	19.3	22.6	24.5	26.6	26.2	25.7	24.9	21.6	15.7		
Net current transfers (negative = inflow)	-1.1	-1.5	-2.4	-1.3	-1.3	-1.3	-1.2	-1.2	-1.2	-0.9	-0.5	-1.1	-1.2
of which: official	-0.5	-0.5	-1.5	-0.9	-1.0	-1.1	-1.0	-1.0	-1.0	-0.8	-0.4		
Other current account flows (negative = net inflow)	-1.6	-0.4	0.3	3.8	4.0	4.9	5.1	5.1	5.3	4.9	3.3	1.5	4.9
Net FDI (negative = inflow)	1.5	-1.2	1.4	-0.1	-0.1	-0.1	-0.1	0.0	-0.1	-0.1	-0.1	-0.7	-0.1
Endogenous debt dynamics 2/	-4.6	-1.5	0.1	2.9	2.0	1.0	-0.6	-0.8	-0.9	-1.0	-0.6		
Contribution from nominal interest rate	3.0	2.7	2.6	1.9	2.2	1.8	1.5	1.3	1.0	0.4	0.3		
Contribution from real GDP growth	-2.8	0.6	-3.5	1.1	-0.2	-0.8	-2.1	-2.1	-1.8	-1.4	-0.9		
Contribution from price and exchange rate changes	-4.8	-4.8	1.0	...	...	...	...	...	...	...	...
Residual 3/	18.6	29.8	14.5	8.1	21.4	19.7	17.0	17.0	17.0	14.5	10.6	10.7	16.1
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	--	--	16.5	20.4	22.1	22.9	22.5	22.0	21.8	17.4	12.8		
PV of PPG external debt-to-exports ratio	--	--	37.5	49.0	46.1	46.5	46.9	47.0	47.1	42.3	43.1		
PPG debt service-to-exports ratio	2.2	2.1	3.5	7.1	4.0	2.6	3.3	3.4	3.3	3.5	6.0		
PPG debt service-to-revenue ratio	6.9	5.9	10.8	22.3	13.0	8.4	10.2	10.3	9.7	8.7	10.2		
Gross external financing need (Million of U.S. dollars)	-3574.1	-4487.2	-3414.3	-1596.5	-2966.7	-2848.7	-2784.7	-2912.6	-3203.6	-4002.2	-5032.2		
Key macroeconomic assumptions													
Real GDP growth (in percent)	3.5	-0.8	5.0	-1.7	0.3	1.4	3.7	3.8	3.4	3.1	3.3	5.5	2.4
GDP deflator in US dollar terms (change in percent)	5.8	7.1	-1.4	-3.0	0.4	-0.5	2.4	1.5	1.6	3.0	2.6	3.0	1.4
Effective interest rate (percent) 4/	3.8	3.9	3.8	3.0	4.0	3.1	2.7	2.3	1.8	0.9	1.2	3.6	2.2
Growth of exports of G&S (US dollar terms, in percent)	21.6	4.1	5.8	-10.1	15.9	3.7	3.2	3.3	3.7	3.1	2.9	10.4	3.2
Growth of imports of G&S (US dollar terms, in percent)	34.4	6.4	20.6	11.9	9.3	9.4	4.5	3.5	1.7	2.7	2.7	5.5	4.9
Grant element of new public sector borrowing (in percent)	--	--	--	24.8	30.4	46.1	44.7	45.4	32.3	21.5	17.0	--	32.9
Government revenues (excluding grants, in percent of GDP)	13.9	15.5	14.4	13.3	14.7	15.1	15.4	15.7	16.0	16.4	17.4	13.2	15.7
Aid flows (in Million of US dollars) 5/	861.0	1051.7	1121.5	682.7	840.1	678.8	738.4	762.7	532.8	481.0	798.9		
Grant-equivalent financing (in percent of GDP) 6/	--	--	--	2.9	2.4	2.3	2.3	2.2	1.7	1.3	1.2	--	1.9
Grant-equivalent financing (in percent of external financing) 6/	--	--	--	35.1	45.1	62.7	59.5	60.9	53.8	48.0	46.0	--	53.0
Nominal GDP (Million of US dollars)	22,743	24,141	25,005	23,842	24,014	24,214	25,725	27,100	28,481	37,535	67,590		
Nominal dollar GDP growth	9.6	6.1	3.6	-4.7	0.7	0.8	6.2	5.3	5.1	6.1	6.0	8.5	3.8
Memorandum items:													
PV of external debt 7/	--	--	60.5	53.9	55.4	56.0	53.6	51.6	49.9	40.6	25.7		
in percent of exports	--	--	137.1	129.6	115.6	113.6	111.9	109.8	107.8	98.8	86.6		
Total external debt service-to-exports ratio	29.6	25.9	26.8	23.8	17.6	15.1	14.8	14.1	13.4	11.9	13.2		
PV of PPG external debt (in Million of US dollars)	--	--	4135.8	4859.1	5304.8	5550.1	5781.9	5974.4	6214.4	6513.1	8628.7		
(PVt-PVt-1)/GDPt-1 (in percent)	--	--	2.9	1.9	1.0	1.0	1.0	0.7	0.9	0.7	0.3		
Non-interest current account deficit that stabilizes debt ratio	-15.5	-27.1	-16.0	-11.0	-23.4	-20.5	-16.3	-16.2	-16.0	-13.4	-9.9		

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $(r - g - p(1+g) + \epsilon \alpha(1+g)) / (1+g+p+g)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate; p = growth rate of GDP deflator in U.S. dollar terms; ϵ = nominal appreciation of the local currency, and α = share of local currency-denominated external debt in total external debt.

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

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

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

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

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

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

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

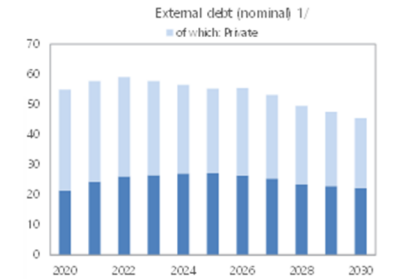
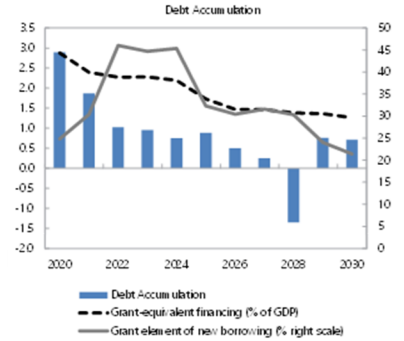


Table 2. Papua New Guinea: Public Sector Debt Sustainability Framework, Baseline Scenario, 2017-2040
(In percent of GDP unless otherwise indicated)

	Actual			Projections										Average 6/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections		
Public sector debt 1/	32.5	36.8	39.0	43.5	45.6	46.9	45.6	44.2	42.6	30.5	19.4	25.5	40.5		
of which: external debt	8.8	15.2	16.5	21.4	24.3	26.1	26.6	27.0	27.1	22.3	16.2	8.6	24.8		
Change in public sector debt	-1.3	4.3	2.2	4.6	2.0	1.3	-1.3	-1.3	-1.6	-2.4	-1.4	1.2	-0.7		
Identified debt-creating flows	-0.9	0.2	0.6	3.9	1.7	0.7	-1.2	-1.5	-1.7	-2.0	-0.9	1.9	0.0		
Primary deficit	0.4	0.2	1.7	3.4	2.2	1.4	0.0	-0.4	-0.8	-1.1	-0.7	14.6	16.7		
Revenue and grants	15.9	17.8	15.5	14.4	15.8	16.2	16.4	16.7	17.0	17.3	18.4	16.5	16.6		
of which: grants	2.0	2.3	1.1	1.1	1.1	1.1	1.0	1.0	1.0	0.9	0.9	16.5	16.6		
Primary (noninterest) expenditure	16.3	18.0	17.2	17.8	18.1	17.7	16.5	16.3	16.2	16.2	17.6	16.5	16.6		
Automatic debt dynamics	-1.3	0.0	-1.1	0.5	-0.5	-0.8	-1.3	-1.0	-0.9	-0.8	-0.2	1.2	-0.7		
Contribution from interest rate/growth differential	-1.0	0.3	-1.5	0.5	-0.5	-0.8	-1.3	-1.0	-0.9	-0.8	-0.2	1.2	-0.7		
of which: contribution from average real interest rate	0.2	0.0	0.3	-0.2	-0.4	-0.1	0.4	0.6	0.6	0.2	0.4	1.9	0.0		
of which: contribution from real GDP growth	-1.2	0.3	-1.8	0.7	-0.1	-0.6	-1.7	-1.7	-1.5	-1.0	-0.7	14.6	16.7		
Contribution from real exchange rate depreciation	-0.3	-0.3	0.4	...	...	...	...	...	...	...	...	16.5	16.6
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.2	-0.7		
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.9	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	14.6	16.7		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	16.5	16.6		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.2	-0.7		
Residual	-0.4	4.1	1.6	0.7	0.3	0.6	-0.1	0.1	0.1	-0.5	-0.4	1.9	0.0		
Sustainability indicators															
PV of public debt-to-GDP ratio 2/	...	...	39.3	42.7	43.5	43.9	41.6	39.4	37.5	25.4	15.7	1.2	-0.7
PV of public debt-to-revenue and grants ratio	...	...	253.0	296.1	275.0	270.3	253.6	235.4	220.4	146.9	85.8	1.9	0.0
Debt service-to-revenue and grants ratio 3/	120.1	104.5	34.4	51.5	60.2	73.1	91.6	92.9	92.7	61.0	29.1	14.6	16.7		
Gross financing need 4/	19.5	18.8	7.0	10.8	11.8	13.3	15.1	15.1	15.0	9.4	4.6	16.5	16.6		
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	3.5	-0.8	5.0	-1.7	0.3	1.4	3.7	3.8	3.4	3.1	3.3	5.5	2.4		
Average nominal interest rate on external debt (in percent)	2.8	3.2	3.8	0.7	3.8	2.9	3.1	3.2	2.8	1.9	2.1	2.2	2.8		
Average real interest rate on domestic debt (in percent)	0.5	-0.5	0.1	0.2	-3.6	-1.6	0.7	1.8	2.1	2.0	2.3	3.1	0.8		
Real exchange rate depreciation (in percent, + indicates depreciation)	-3.7	-3.6	2.4	...	...	...	...	...	...	...	...	0.3	...
Inflation rate (GDP deflator, in percent)	7.7	10.1	0.9	0.8	6.5	5.4	3.5	2.5	2.6	3.0	2.6	4.6	3.3		
Growth of real primary spending (deflated by GDP deflator, in percent)	-11.1	10.0	0.3	1.4	1.9	-0.8	-3.3	2.9	2.8	4.9	3.3	3.0	1.8		
Primary deficit that stabilizes the debt-to-GDP ratio 5/	1.6	-4.1	-0.5	-1.2	0.2	0.1	1.4	0.9	0.8	1.3	0.7	-1.0	0.7		
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.2	-0.7		

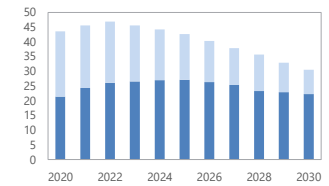
Sources: Country authorities; and staff estimates and projections.

- 1/ Coverage of debt: The central, state, and local governments, government-guaranteed debt. Definition of external debt is Residency-based.
- 2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.
- 3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.
- 4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.
- 5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio (-): a primary surplus, which would stabilize the debt ratio only in the year in question.
- 6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

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

Public sector debt 1/

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



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

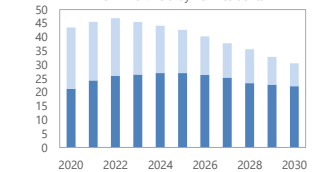


Table 3. Papua New Guinea: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2020-2030 (In percent)

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of debt-to-GDP ratio											
Baseline	20	22	23	22	22	22	21	20	18	18	17
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	20	31	39	46	52	58	64	69	72	76	79
B. Bound Tests											
B1. Real GDP growth	20	24	26	26	25	25	24	24	21	20	20
B2. Primary balance	20	22	24	24	24	24	24	23	21	20	20
B3. Exports	20	29	41	40	40	39	39	38	35	34	32
B4. Other flows 3/	20	24	27	26	26	25	25	24	21	21	20
B5. Depreciation	20	28	32	31	30	30	29	28	25	25	24
B6. Combination of B1-B5	20	29	33	32	32	31	31	30	27	26	25
C. Tailored Tests											
C1. Combined contingent liabilities	20	25	27	28	29	29	30	29	27	27	27
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	20	28	35	35	36	37	37	37	35	35	34
C4. Market Financing	20	25	26	25	25	24	24	23	20	20	19
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	49	46	47	47	47	47	47	46	41	42	42
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	49	65	80	96	112	126	141	153	165	179	192
B. Bound Tests											
B1. Real GDP growth	49	46	47	47	47	47	47	46	41	42	42
B2. Primary balance	49	47	49	51	51	52	52	51	47	48	48
B3. Exports	49	75	111	112	113	113	113	112	106	106	104
B4. Other flows 3/	49	50	54	55	55	55	54	53	49	50	50
B5. Depreciation	49	46	51	51	51	51	51	50	46	46	46
B6. Combination of B1-B5	49	65	61	71	71	72	71	70	66	65	65
C. Tailored Tests											
C1. Combined contingent liabilities	49	52	56	59	62	64	65	65	62	64	65
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	49	70	82	83	84	84	84	85	83	85	86
C4. Market Financing	49	46	47	47	47	47	47	46	41	42	42
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	7	4	3	3	3	3	3	4	7	3	3
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	7	4	3	4	4	4	5	6	8	7	8
B. Bound Tests											
B1. Real GDP growth	7	4	3	3	3	3	3	4	7	3	3
B2. Primary balance	7	4	3	3	4	4	4	4	8	4	4
B3. Exports	7	5	4	6	6	6	6	7	11	7	9
B4. Other flows 3/	7	4	3	3	4	4	4	4	8	4	4
B5. Depreciation	7	4	3	3	4	3	3	4	7	4	4
B6. Combination of B1-B5	7	5	3	4	4	4	4	5	9	5	6
C. Tailored Tests											
C1. Combined contingent liabilities	7	4	3	4	4	4	4	4	8	4	4
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	7	5	3	5	5	4	4	5	9	6	7
C4. Market Financing	7	4	3	3	3	3	3	4	7	3	3
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	22	13	8	10	10	10	9	11	19	9	9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	22	12	9	12	13	13	13	15	22	18	21
B. Bound Tests											
B1. Real GDP growth	22	14	10	12	12	11	11	12	22	10	10
B2. Primary balance	22	13	9	11	11	10	10	11	20	10	10
B3. Exports	22	13	10	14	14	13	12	14	23	14	18
B4. Other flows 3/	22	13	9	11	11	10	10	11	20	10	11
B5. Depreciation	22	16	11	13	13	13	12	14	25	12	12
B6. Combination of B1-B5	22	14	10	13	13	12	12	13	23	13	13
C. Tailored Tests											
C1. Combined contingent liabilities	22	13	9	11	11	11	11	12	21	10	10
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	22	15	11	14	14	13	12	14	23	14	16
C4. Market Financing	22	13	8	10	10	10	10	11	19	9	9
Threshold	18	18	18	18	18	18	18	18	18	18	18

Sources: Country authorities; and staff estimates and projections.

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

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

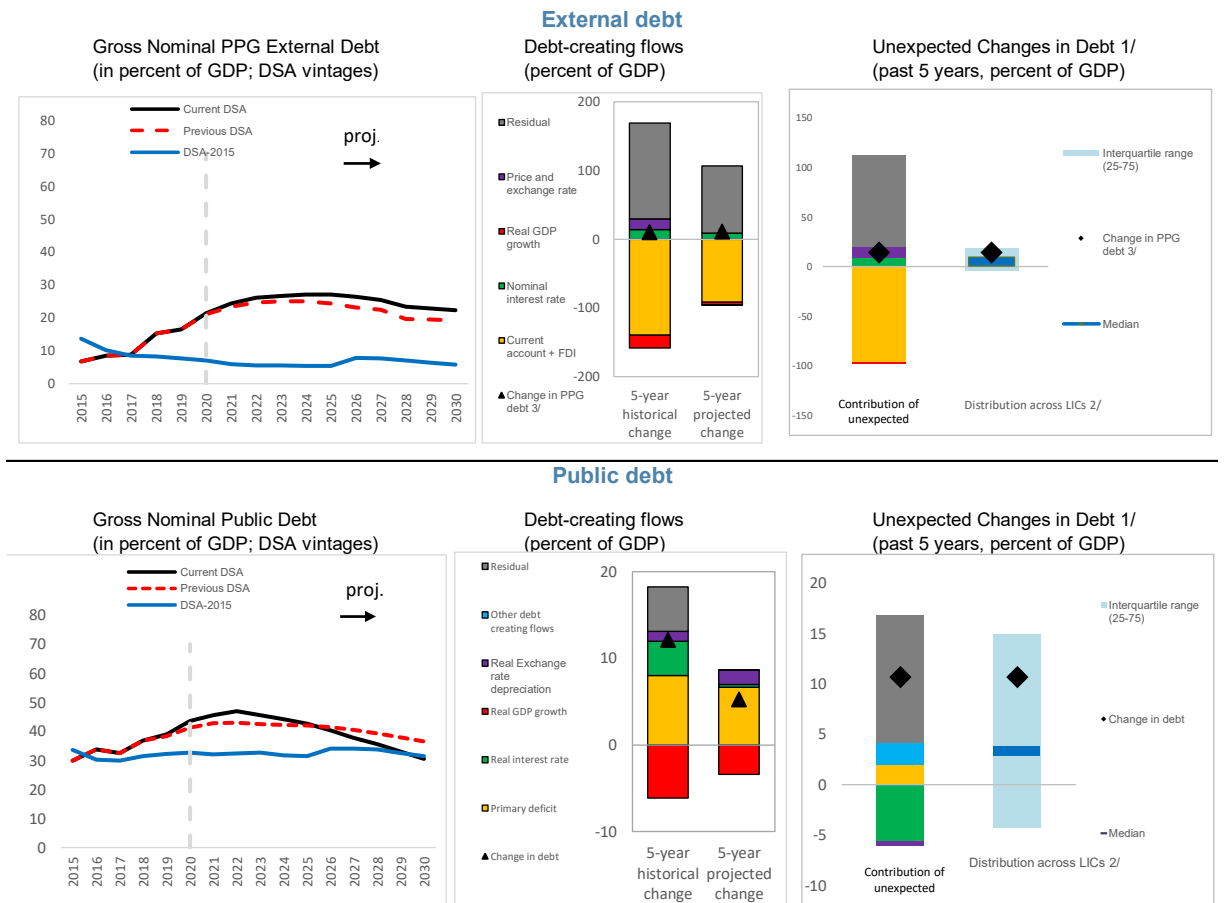
3/ Includes official and private transfers and FDI.

Table 4. Papua New Guinea: Sensitivity Analysis for Key Indicators of Public Debt, 2020-2030
(In percent)

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of Debt-to-GDP Ratio											
Baseline	43	43	44	42	39	38	35	33	30	28	25
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	43	42	41	39	38	36	35	33	32	31	30
B. Bound Tests											
B1. Real GDP growth	43	48	53	53	52	52	51	50	49	47	47
B2. Primary balance	43	45	48	46	43	41	39	36	34	31	29
B3. Exports	43	50	60	58	55	53	51	48	45	42	38
B4. Other flows 3/	43	45	48	45	43	41	39	36	34	31	28
B5. Depreciation	43	46	45	42	39	36	33	29	26	22	20
B6. Combination of B1-B5	43	43	46	44	42	40	38	36	34	31	29
C. Tailored Tests											
C1. Combined contingent liabilities	43	59	59	56	53	51	48	45	42	39	37
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	43	47	51	53	54	55	55	54	53	51	51
C4. Market Financing	43	43	44	42	39	38	35	33	30	28	25
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	296	275	270	254	235	220	203	188	174	159	147
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	296	265	255	241	226	215	203	195	187	180	175
B. Bound Tests											
B1. Real GDP growth	296	299	326	319	309	302	292	286	279	272	268
B2. Primary balance	296	287	297	279	259	243	224	209	194	179	166
B3. Exports	296	317	372	352	331	313	293	276	261	242	222
B4. Other flows 3/	296	287	293	276	257	241	224	208	193	178	164
B5. Depreciation	296	292	280	256	231	211	189	169	149	130	114
B6. Combination of B1-B5	296	275	281	267	250	237	221	207	194	180	169
C. Tailored Tests											
C1. Combined contingent liabilities	296	375	364	341	317	298	277	260	243	227	213
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	296	336	355	365	354	343	326	310	304	297	292
C4. Market Financing	296	275	270	254	235	220	203	188	174	159	147
Debt Service-to-Revenue Ratio											
Baseline	51	60	73	92	93	93	86	84	83	73	61
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	51	58	69	84	83	80	72	67	65	55	45
B. Bound Tests											
B1. Real GDP growth	51	64	88	118	126	131	129	130	133	124	113
B2. Primary balance	51	60	83	109	107	104	96	92	90	79	67
B3. Exports	51	60	74	94	95	95	89	86	86	77	69
B4. Other flows 3/	51	60	73	92	93	93	87	84	84	74	63
B5. Depreciation	51	57	70	88	89	88	82	80	82	69	58
B6. Combination of B1-B5	51	59	75	94	97	98	93	91	91	81	69
C. Tailored Tests											
C1. Combined contingent liabilities	51	60	148	152	140	131	117	109	105	91	77
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	51	70	86	109	127	137	135	133	135	126	117
C4. Market Financing	51	60	73	92	93	93	87	84	83	73	61

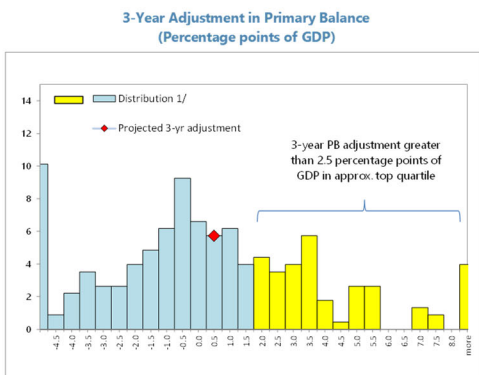
Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

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

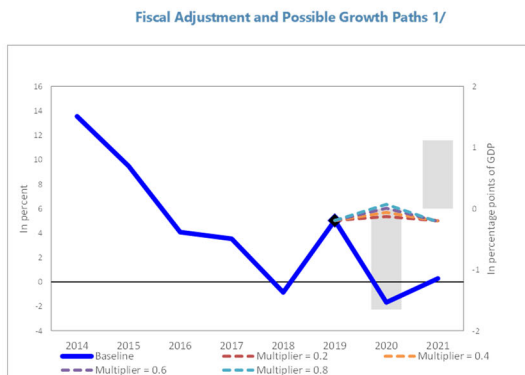


1/ Difference between anticipated and actual contributions on debt ratios.
 2/ Distribution across LICs for which LIC DSAs were produced.
 3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

Figure 4. Papua New Guinea: Realism Tools

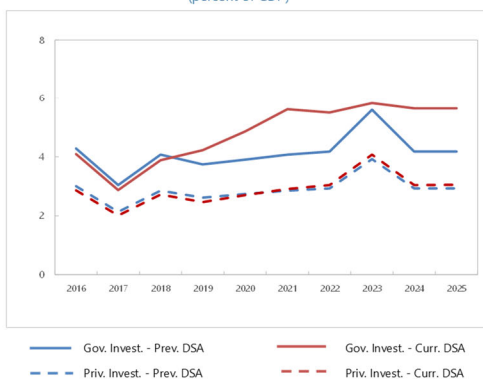


1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.



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

Public and Private Investment Rates
(percent of GDP)



**Statement by Nigel Ray, Executive Director for Papua New Guinea
and Laura Johnson, Senior Advisor to Executive Director
June 5, 2020**

On behalf of our Papua New Guinea (PNG) authorities, we thank staff, management and the Executive Board for their continued support to PNG, especially during these challenging times.

PNG entered the pandemic with a fragile economy and limited fiscal space. In February, the authorities requested Fund assistance through a Staff Monitored Program (SMP) to support PNG's economic reform program to address PNG's key macroeconomic challenges.

Seeking support from the Fund, both through the SMP and now through emergency financing, is a significant step for the government. The authorities are grateful to have re-established positive engagement with the Fund and remain firmly committed to their reform efforts and are keen to establish a positive track record of policy implementation with the Fund.

The COVID-19 pandemic

PNG's health system is fragile. The fast-growing population of more than eight million mainly live outside urban centers, often in remote and rugged country that is difficult to access. PNG has only 500 doctors, less than 4,000 nurses, and around 5,000 beds in hospitals and health centers, and only 14 ventilators. Local testing kit stocks are low and many tests are sent to Australia. A COVID-19 outbreak could be catastrophic – especially in the outer provinces.

For this reason, the PNG authorities acted swiftly to take early action to prepare for the health risks and to impose containment measures to protect the PNG people. So far PNG has only had a handful of confirmed COVID-19 cases and no fatalities.

The government imposed necessary containment measures, declaring a State of Emergency on 24 March, which restricted movements and gatherings, closed schools, enforced home quarantine for everyone except essential workers and closed international borders. From early May, PNG has started to gradually ease restrictions – opening up the borders to allow PNG nationals to return home, slightly easing intra-province travel and resuming some business operations – while continuing to encourage social distancing, banning social gatherings and continuing to encourage non-essential workers to stay at home.

Economic outlook

The impact of the COVID-19 pandemic and the necessary containment measures imposed by the PNG government will have a significant negative effect on domestic economic activity and growth. The authorities are forecasting the PNG economy to fall into recession in 2020, driven by the fall in global growth and the impact on commodity prices, as well as the impacts of containment measures on retail trade and other parts of the PNG economy.

Despite a current account surplus, PNG's non-resource sector continues to face a shortage of foreign exchange, as the surplus is almost entirely offset by financial outflows associated with resource sector investments. As a result of the pandemic and lower commodity prices, export earnings are expected to fall by 13 percent (a fall of over K5 billion), making foreign exchange shortages even more acute. Lower export earnings will have large negative flow on effects for government revenue from mining, but also lower incomes for rural households.

The economic slowdown and individuals losing employment will lower personal income tax, company tax (including mineral petroleum tax) and GST collections. Overall, revenues are expected to fall by around K2,200 million representing a loss of nearly one-fifth of expected domestic revenues in 2020.v

Leading into the pandemic, PNG's starting point was a budget deficit of K4,631 million (around 5 percent of GDP) – which the authorities now expect to worsen given the impacts of COVID-19 and the significant reductions in tax revenues and slowdown in government business operations. The authorities intend to introduce a supplementary budget that will incorporate the effects of COVID-19 on government revenue and expenditure and the necessary financing requirements.

Policy response to the crisis

The PNG authorities took early actions to prepare the health system, through increased funding for testing and quarantine facilities (K45 million), as well as clearing backlogs of unpaid medical bills. The government's swift actions, together with containment measures, were an attempt to prevent PNG's limited health care infrastructure being overwhelmed by community transmission cases.

The authorities have continued to announce a series of policy responses to the crisis, including a K5.7 billion (around 6 percent of GDP) stimulus package. Given the already large debt burden, the authorities limited direct fiscal spending in the stimulus package to K600 million, bringing total COVID related spending to K645 million (around 0.8 percent of GDP), and have chosen to use primarily monetary, financial and banking policies to cushion the negative effects on the economy. Importantly, the authorities are seeking to maintain overall government spending at the 2020 Budget level so are looking in the first instance to redirect spending to support the health system, security and the economy.

Households and businesses will be afforded loan repayment holidays, with payments of obligations in the second half of the year, and for those individuals who have lost employment, the authorities are also allowing enhanced early access to superannuation savings.

The Bank of Papua New Guinea has taken a number of steps to support liquidity and credit in the economy, including by cutting the policy rate from 5 percent to 3 percent; reducing the cash reserve requirement from 10 percent to 7 percent; and initiating purchases of government bonds over the next three months.

Staff Monitored Program

The authorities remain deeply committed to pursuing and implementing structural reforms under the SMP despite the COVID-19 pandemic. The first official review of the SMP is scheduled for June. While some quantitative targets and dates for implementation for some structural reforms have been delayed due to the pandemic, the authorities are continuing to make progress on other structural benchmarks. The authorities consider that they have now met nine of the ten structural benchmarks due by the end of April and are working hard on all other benchmarks. They look forward to the SMP review.

To demonstrate their commitment to the reform efforts, two benchmarks under the SMP have been met as prior actions to seeking emergency financing. The authorities have set and approved explicit objectives and milestones for the Internal Revenue Commission to be achieved in 2020 through the Medium-Term Revenue Strategy Steering Committee. The authorities have also been regularly sharing information between Treasury and the Bank of Papua New Guinea to allow for effective liquidity management. This includes sharing projections for spending and debt-service payments, as well as projected revenues, debt issuance, donor grants and external loan disbursements.

Governance safeguards

The authorities remain committed to good governance and high standards of transparency and accountability to ensure the effective use of the Fund's budget support. To demonstrate their commitment, the authorities have implemented prior actions to strengthen transparency and accountability ahead of seeking emergency financing from the Fund.

The authorities are posting details of all COVID-related government spending on the National Procurement Commission website, and weekly reports are provided to the Budget Management Committee. The authorities have also committed to complete an independent audit within a year of the end of the State of Emergency and a consolidated procurement report will be provided to the National Executive Council within three months of the end of the State of Emergency. The Bank of Papua New Guinea has also committed to undergo a safeguards assessment, to provide the Fund with the most recent central bank audit reports, and to facilitate the bank's external auditors to discuss these issues further with staff.

The PNG Treasurer and Health Minister recently reaffirmed their commitment to managing COVID-19 related funds transparently and appropriately, strengthening cooperation between their agencies and agreeing that Treasury is to withhold funding from implementing agencies if they fail to provide the appropriate acquittals.

Fund support

PNG is facing an urgent balance of payments need, which has triggered the authorities' request for emergency financing in the amount of SDR263.2 million (100 percent of quota). The Fund's

emergency assistance will help meet the urgent balance of payments financing needs stemming from the adverse impact of the ongoing shock on the economy as a result of COVID-19.

The authorities are continuing to actively seek additional financing from multilateral and bilateral development partners and Fund support will play a catalytic role. In this regard, the World Bank is providing \$US20 million in medical supplies assistance and the Asian Development Bank is providing \$US195 million to support the delivery of accessible, affordable, and high-quality health services in PNG. Other donors are also adjusting their programs to respond to COVID-19. The authorities have also applied to the Paris Club for debt relief on eligible official bilateral debt, under the G20 Debt Service Suspension Initiative.

The authorities are thankful to the Fund for their advice and support of their economic reform program through the SMP, as well as ongoing technical assistance. The authorities look forward to further constructive engagement in the future which will help PNG deliver on its reform objectives and build a track record of policy implementation.