INTERNATIONAL MONETARY FUND

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PAPUA NEW GUINEA

December 2024

THIRD REVIEWS UNDER EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, REQUESTS FOR EXTENSION, REPHASING OF ACCESS, AND MODIFICATION OF QUANTITATIVE PERFORMANCE CRITERIA, AND REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR PAPUA NEW GUINEA

In the context of the Third Reviews under Extended Arrangement under the Extended Fund Facility and an Arrangement under the Extended Credit Facility, Request for Extension, Rephasing of Access, and Modification of Quantitative Performance Criteria, and Request for an Arrangement under the Resilience and Sustainability 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 December 11, 2024, following discussions that ended on October 9, 2024, with the officials of Papua New Guinea on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on November 21, 2024.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **World Bank Assessment Letter** for the Resilience and Sustainability Facility.
- 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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PRESS RELEASE

PR24/463

IMF Executive Board Approves Resilience and Sustainability Facility Arrangement and Completes the Third Reviews Under the Extended Credit Facility and Extended Fund Facility Arrangements for Papua New Guinea

FOR IMMEDIATE RELEASE

- The IMF Executive Board approved a new two-year arrangement under the Resilience and Sustainability Facility (RSF) for Papua New Guinea for an amount equivalent to about US$259 million, to help the authorities improve climate resilience and build policy buffers against climate shocks. Papua New Guinea is the first Pacific Island country to access the RSF.
- The Executive Board also completed the Third Reviews under the existing ECF/EFF arrangements, providing the country with immediate access to about US$125 million. The authorities continue to make progress in economic reforms, reducing the fiscal deficit and alleviating foreign exchange shortages.
- The ECF/EFF and RSF programs will continue to support Papua New Guinea's reform agenda, focusing on strengthening debt sustainability, alleviating FX shortages, fostering good governance and building climate resilience, while protecting the vulnerable and promoting inclusive and sustainable growth.

Washington, DC: On December 11, 2024, the Executive Board of the International Monetary Fund (IMF) approved a 24-month arrangement under the Resilience and Sustainability Facility (RSF) for Papua New Guinea in the amount of SDR 197.40 million (about US$259 million), with disbursements to start when the first review of the arrangement is completed. The RSF arrangement will help the authorities tackle pressing challenges posed by climate change and reinforce the country's resilience by strengthening disaster risk management capacity, supporting the inclusion of climate considerations in public investment decisions, encouraging the development of green finance, and enhancing mitigation policies. Papua New Guinea is the first Pacific Island country and only the second country from the Asia-Pacific region to gain access to the RSF.

The Executive Board also completed the Third Reviews of Papua New Guinea's existing Extended Credit Facility and Extended Fund Facility (ECF/EFF) arrangements, approved on March 22, 2023, supporting reforms to address long-standing structural impediments to inclusive growth. This review completion allows for the immediate disbursement of SDR 94.75 million (about US$125 million) toward budget support, bringing total disbursements under the program so far to SDR 321.12 million (about US$422 million). The Executive Board also approved a seven-month extension of the ECF/EFF arrangements to provide additional time to complete key reforms under the program.

Papua New Guinea's economic outlook remains positive, with growth expected to increase to 4.5 percent in 2024 and 4.6 percent in 2025 from 2.9 percent in 2023, supported by the resumption of activities at the Porgera gold mine and improvements in access to foreign exchange. Headline inflation is projected to remain historically low at 1.3 percent in 2024, mostly due to a steep drop in betel nut prices, but core inflation is expected to increase to 3.9 percent in 2024 and 4.5 percent in 2025, mainly driven by food and transportation costs.

The medium-term outlook is positive but subject to large downside risks, as Papua New Guinea is vulnerable to both domestic and external shocks. These risks are exacerbated by capacity constraints that impact the government's ability to design and implement policies aimed at economic stabilization, development, and climate adaptation. On the upside, the start of the construction of major resource projects, which are not yet in the baseline scenario, could yield additional economic growth in the medium run, as well as gains in exports and fiscal revenues once they begin operations.

Program performance has remained satisfactory, with the authorities displaying a sustained commitment to reforms. All end-June 2024 quantitative performance criteria and indicative targets were met, and most structural benchmarks due were fully or partially implemented.

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

"The Papua New Guinea authorities have continued implementing the reform agenda under their Fund-supported program, with the reforms starting to bear fruit. Staying the course on their homegrown reforms will help them achieve more resilient, inclusive, and greener economic growth.

"The authorities have been successfully reducing the fiscal deficit, with additional efforts expected in 2025. To durably reduce debt vulnerabilities while freeing up fiscal space for development, climate adaptation, and building buffers, further fiscal adjustment should rely on the implementation of the Medium-Term Revenue Strategy, including the modernization of key tax legislation, to improve domestic revenue mobilization; enhancements in the management of public expenditure and government cash to make spending more efficient; and seeking more concessional and longer-term borrowing. Securing fiscal space for social spending to protect the most vulnerable is also essential.

"Foreign exchange shortages—a longstanding impediment to private sector development—have eased in recent months, following central banking reforms aimed at greater exchange rate flexibility, a more competitive foreign exchange market, and more active liquidity management. Consistent with its sequenced roadmap of reforms, the central bank should continue working toward restoring kina convertibility and modernizing monetary policy operations, while keeping inflation in check through appropriate monetary tightening. Promptly appointing members at the newly created Monetary Policy Committee is essential to ensure continuity in policymaking.

“The operationalization of the Independent Commission Against Corruption (ICAC) should continue. Allocating appropriate budget resources, swiftly appointing its oversight committee, and setting up frameworks for interagency exchange of information are key to allow the ICAC to effectively carry out its missions. Other important governance reforms include strengthening the AML/CFT framework and enhancing transparency and accountability in state-owned enterprises and public entities.

“Given the country’s high vulnerability to climate change, managing its impact is critical to the success of the authorities’ poverty reduction and sustainable growth agenda. Reforms under the new RSF arrangement will help the authorities build resilience against climate-related risks and meet their international climate commitments.

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

Table 1. Papua New Guinea: Selected Economic and Financial Indicators, 2020-2026

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

	2020	2021	2022	2023	2024	2025	2026
		Est.	Est.	Est.	Proj.	Proj.	Proj.
	(Percentage change)						
Real sector							
Real GDP growth	-3.2	-0.5	5.7	3.0	4.5	4.6	3.5
Resource 2/	-9.2	-11.6	5.1	-1.6	5.0	3.8	1.5
Non-resource	-0.4	4.2	5.9	4.7	4.4	4.8	4.2
Mining and quarrying (percent of GDP)	10.2	8.2	8.2	8.5	10.2	11.8	12.2
Oil and gas extraction (percent of GDP)	14.1	17.1	23.7	18.9	17.6	16.3	15.4
CPI (annual average)	4.9	4.5	5.3	2.3	1.3	5.1	4.3
CPI (end-period)	5.1	5.7	3.4	3.9	1.7	3.9	4.5
	(In percent of GDP)						
Central government operations							
Revenue and grants	14.7	15.1	16.6	17.9	18.7	19.3	19.6
Of which: Resource revenue	0.9	1.1	3.9	3.9	3.3	3.7	3.9
Expenditure and net lending	23.5	22.0	21.9	22.3	22.6	21.9	21.0
Net lending(+)/borrowing(-)	-8.9	-6.8	-5.3	-4.3	-3.9	-2.6	-1.3
Non-resource net lending(+)/borrowing(-)	-9.8	-8.0	-9.1	-8.2	-7.2	-6.3	-5.2
	(Percentage change)						
Money and credit							
Domestic credit	2.3	15.9	1.5	14.9	13.8	2.4	1.6
Credit to the private sector	4.2	2.5	6.9	14.9	12.5	14.2	12.6
Broad money	7.0	13.4	14.7	9.9	1.7	-1.0	4.9
	(In billions of U.S. dollars)						
Balance of payments							
Exports, f.o.b.	9.1	10.8	14.6	12.9	13.5	15.1	15.8
Imports, c.i.f.	-3.6	-4.4	-5.9	-5.2	-5.0	-5.4	-5.6
Current account (including grants)	3.4	3.3	4.6	3.9	3.1	3.9	3.8
(In percent of GDP)	14.4	12.6	14.4	12.7	9.8	11.8	11.1
Gross official international reserves	2.7	3.2	4.0	3.9	3.0	3.0	3.4
(In months of goods and services imports)	5.0	4.5	6.3	6.6	4.8	4.7	5.2
	(In percent of GDP)						
Government debt							
Government gross debt	48.7	52.6	48.2	53.7	53.9	52.6	50.9
External debt-to-GDP ratio (in percent) 3/	21.8	25.0	23.5	26.8	30.6	31.4	32.5
External debt-service ratio (percent of exports)	5.4	4.3	2.2	2.7	3.4	4.5	5.4
Exchange rates							
US$/kina (end-period)	0.2850	0.2850	0.2840	0.2683	…	…	…
NEER (2005=100, fourth quarter)	90.7	91.2	100.3	101.1	…	…	…
REER (2005=100, fourth quarter)	122.6	125.1	135.5	134.7	…	…	…
Terms of trade (2010=100, end-period)	55.1	48.2	69.5	65.6	61.5	66.2	66.9
Nominal GDP (in billions of kina)	82.5	91.6	111.4	110.6	122.3	134.7	144.2
Non-resource nominal GDP (in billions of kina)	62.5	68.4	75.9	80.3	88.3	96.9	104.4

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

1/ Based on period average exchange rate.

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

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

INTERNATIONAL MONETARY FUND

PAPUA NEW GUINEA

November 21, 2024

THIRD REVIEWS UNDER EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, REQUESTS FOR EXTENSION, REPHASING OF ACCESS, AND MODIFICATION OF QUANTITATIVE PERFORMANCE CRITERIA, AND REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY

EXECUTIVE SUMMARY

Background. On March 22, 2023, the IMF Executive Board approved 38-month Extended Credit Facility (ECF) and Extended Fund Facility (EFF) arrangements with Papua New Guinea to help address a protracted balance of payments need, manifested in foreign exchange shortages, and to support the authorities' reforms to address longstanding structural impediments to inclusive growth. Despite socio-political challenges, the authorities have made progress in implementing reforms, demonstrating continued commitment to the program's objectives.

Program developments. Program performance has been satisfactory. All end-June 2024 quantitative performance criteria (QPC) and indicative targets (ITs) were met. The continuous ceilings on the present value of new external debt for 2024 and 2025 are proposed to be revised, based on the authorities' updated borrowing plans, while preserving debt sustainability. QPC and ITs for the end-December 2025 test date are proposed. In addition, the authorities have continued advancing their structural reform agenda. Two out of four structural benchmarks (SBs) due by end-October 2024 were met, and one was partially implemented. The delayed SB on the appointment of the Independent Commission Against Corruption (ICAC)'s oversight committee is proposed to be reset to end-March 2025. Seven new SBs are proposed to improve cash, debt, and payroll management, to enhance central bank operations, and to strengthen the financial accountability of state holding companies.

Extension of the ECF-EFF arrangements. The uncertain socio-political environment has led to a slowdown in the implementation of reforms. In addition, to preserve macroeconomic stability, several critical structural reforms supported by the ECF-EFF arrangements, such as the return to kina convertibility or the move to a treasury single

account, require a gradual approach, which will take more time than initially envisaged. For these reasons, a seven-month extension of the ECF-EFF arrangements is proposed.

Resilience and Sustainability Facility (RSF) arrangement. To help address risks associated with longer-term structural challenges posed by climate change, thereby contributing to PNG's prospective balance of payment stability, the authorities have requested a roughly 24-month RSF arrangement to strengthen disaster risk management capacity, support the inclusion of climate considerations in public investment decisions, encourage the development of green finance, and enhance mitigation policies.

Policy discussions. Policy discussions focused on: (i) progress in the implementation of the fiscal consolidation strategy, relying on revenue mobilization efforts, expenditure rationalization, and a prudent borrowing plan; (ii) the continuation of the implementation of the roadmap of central bank reforms, particularly regarding foreign exchange and liquidity management; (iii) upcoming steps in the operationalization of the anti-corruption and governance frameworks; and (iv) structural reform priorities to enhance PNG's resilience to climate change.

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

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

A staff team consisting of Tahsin Saadi Sedik (head), Fabien Gonguet, Yue Zhou (all APD), Wilson Yim, Dulani Seneviratne (both MCM), Miguel Ricaurte (SPR) and Kaleb Tamiru Gulilat (FAD) visited Port Moresby during September 26-October 9, 2024. The mission met with Treasurer Ian Ling-Stuckey, BPNG Governor Elizabeth Genia, Treasury Secretary Andrew Oaeke, senior government officials, development partners and representatives of the private sector. Mr. Nicholl (OED) participated in the concluding meetings. The mission was assisted by Sohrab Rafiq, Resident Representative, and Sylvester Kilian, local economist. Nadine Dubost, Loa Anisi and Saraf Nawar provided administrative and research support for the preparation of the staff report.

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CONTEXT

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

2. PNG's immense environmental capital is under threat from climate change and deforestation (Annex II). PNG is home to the third-largest rainforest in the world and hosts about 7 percent of the world's biodiversity. Yet, PNG is among the countries most vulnerable to the negative effects of climate change, especially in terms of food security, health, and infrastructure. Climate hazards include sea level rise, coastal erosion and flooding, landslides, droughts, and heatwaves, with remote rural livelihoods reliant on subsistence farming particularly vulnerable to their consequences. Adaptation needs are large but adaptive capacity is among the lowest in the Asia-Pacific region.

3. Since the January 2024 civil unrest, risks to political and social stability have increased. While order was restored quickly, the civil unrest episode has had political ramifications, with several cabinet reshuffles as well as unsuccessful motions of no-confidence against the Government presented in Parliament in February, May, and September. Despite these events, program performance has remained satisfactory. But the events raised the political sensitivity of key reforms, and impacted the parliamentary calendar, delaying the adoption of laws.

4. The authorities are requesting a seven-month extension of the ECF and EFF arrangements and access to a roughly 24-month arrangement under the Resilience and Sustainability Facility (RSF).[2] The extension, until December 21, 2026, is warranted to ensure sufficient time to complete key reforms under the program. In addition, to help address risks associated with longer-term structural challenges posed by climate change, thereby contributing to PNG's prospective balance of payments stability, the authorities have requested an RSF arrangement to strengthen disaster risk management capacity, support the inclusion of climate considerations in public investment decisions, encourage the development of green finance, and enhance mitigation policies.

RECENT DEVELOPMENTS

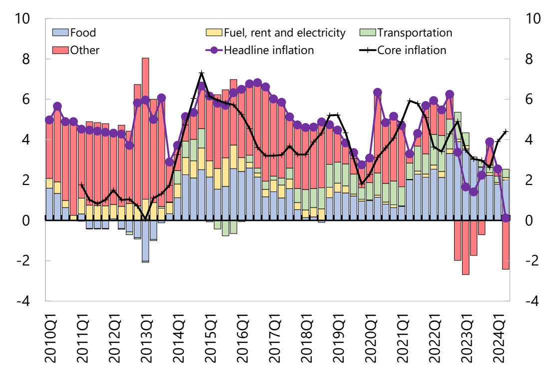
5. Growth in 2023 softened to 3.0 percent, and core inflation picked up in the first half of 2024. Growth in the non-resource sector remained resilient at 4.7 percent in 2023. However, the

[1] See Annex IV of the Staff Report for the First Reviews Under an Extended Arrangement Under the EFF and an Arrangement Under the ECF (IMF Country Report No. 2023/385).

[2] The duration of the RSF arrangement is proposed to coincide with the remaining duration of the ECF-EFF arrangements after their extension.

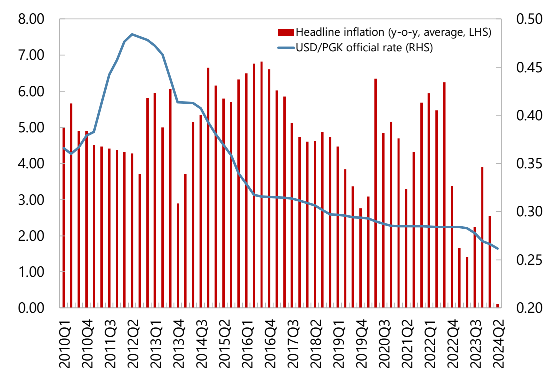
resource sector contracted by 1.6 percent due to lower-than-expected gold production. Headline inflation declined from 3.9 percent in 2023Q4 to 0.1 percent in 2024Q2, mostly driven by a sharp decline in prices of betel nuts and a reduction in prices for communication services. However, core inflation edged up to 4.4 percent in 2024Q2, due to rising food and transportation prices and pass-through from the gradual depreciation of the exchange rate.

Contribution to Headline Inflation
(In percentage points)



Source: IMF staff based on official data.

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



Source: IMF staff based on official data.

6. **The fiscal deficit narrowed to 4.3 percent of GDP in 2023 from 5.3 percent in 2022.** The decline was largely driven by an increase in total revenue (1.3 pp of GDP), while expenditure only increased by 0.4 pp of GDP. In the first half of 2024, the fiscal deficit narrowed further to K1.9 billion or 1.6 percent of GDP, compared to 2.6 percent in the first half of 2023, staying below the program's end-June 2024 QPC ceiling. Revenue increased relative to the same period in 2023, driven by grants and non-tax revenue. Total expenditure slightly dropped, thanks to contained current spending. The deficit target as of end-September 2024 was met with a wide margin.

7. **Net international reserves (NIR) remained adequate at US$2.8 billion at end-September 2024, about US$ 0.6 bn above the program's indicative floor.** The US$0.5 bn decrease in NIR since end-2023 mostly reflects the active intervention strategy by BPNG to support the clearing of the backlog of essential foreign exchange (FX) orders. The 2023 ESA indicates PNG's external position was moderately weaker than the level implied by medium-term fundamentals and desirable policies, while the REER was estimated to be overvalued by about 5 percent.[3] Models using higher frequency data point to an overvaluation of the REER of around 5 percent as of end-June 2024 (8.8 percent at the close of last year).[4] During 2024, under the newly adopted *de facto* crawl-like arrangement, the kina has continued to gradually depreciate against the US dollar, by a cumulative 5 percent as of mid-October 2024. While FX shortages persist, the combination of (i) increasing FX inflows, especially in the mining and agriculture sectors; (ii) greater FX offshore sourcing by the oil

[3] See Annex II of the Staff Report for the Second Reviews Under the ECF and an Extended Arrangement Under the EFF (IMF Country Report No. 24/231) for details on the External Sector Assessment (ESA) for 2023.

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

importer; and (iii) the increase in BPNG's FX interventions has reduced waiting times for FX, particularly for essential import orders.

8. Excess liquidity in the banking system has decreased, leading to a tightening in domestic financing conditions. Reforms implemented in the first twelve months of the authorities' roadmap of central banking reforms, including the fixed-rate full-allotment (FRFA) auction for 7-day central bank bills (CBB) and the move to a *de facto* crawl-like arrangement, have contributed to a gradual reduction in structural excess liquidity in the banking system, an expected positive consequence of the reforms. However, the increase in the cash reserve requirement (CRR) ratio (from 10 to 12 percent), the eligibility of non-reserve maintaining entities to CBB auctions, and the occurrence of large financial account transactions have led to a significant tightening of liquidity conditions in Q3 2024, particularly for domestic banks. This has led to a reduction in domestic budget financing, especially in Treasury bonds, at a time when the low coupon rates offered by the Treasury and political uncertainty were already driving investors towards shorter-term instruments. To secure financing for the rest of 2024, the authorities are auctioning longer-dated bonds at market-determined yields and relying on more external concessional financing, including from bilateral partners, than planned earlier in the year.

9. PNG's public and publicly guaranteed debt continues to be assessed as sustainable, while the risk of debt distress remains high (see Debt Sustainability Analysis, DSA). The elevated debt, together with the liquidity risk associated with the bullet payment due in 2028 on PNG's existing Eurobond and higher official bilateral and multilateral debt service payments in the first half of the forecast horizon, leads to breaches of the debt service-to-revenue ratio threshold in the baseline scenario. Domestic debt vulnerabilities are elevated, contributing to persistent breaches of the PV of overall debt ratio. The authorities aim to address refinancing risks for domestic debt through changes in the debt structure (e.g., issuing longer-term securities when possible).

10. The financial sector remains well-capitalized and profitable, adjusting to tighter liquidity conditions. As of Q2 2024, capital adequacy ratios were well above prudential standards, and bank profits remained comfortable. Private sector credit picked up in 2023, and nonperforming loans (NPL), while higher than pre-pandemic levels, have decreased since their 2021 peak. However, the banking sector is subject to concentration risks, with one bank carrying 70 percent of all banking assets, and the bank-sovereign nexus is high, given the large amounts of government cash deposits and government securities held by commercial banks. In recent months, banks have been adjusting the composition and maturity of their investment portfolios, in the face of new market conditions – sharp decrease in excess liquidity and increase in domestic interest rates.

OUTLOOK AND RISKS

11. Real growth in 2024 is expected to pick up to 4.5 percent, driven by a rebound in resource sector activities and resilient non-resource sector growth. The reopening of the Porgera gold mine in late December 2023 is expected to create jobs and raise resource sector growth to 5.0 percent, despite a temporary closure, this year. Growth in the non-resource sector is projected to increase to 4.4 percent, thanks to improved access to FX. Core inflation is expected to average 3.9 percent in 2024, mainly driven by food and transportation costs. Average headline inflation, however, is projected to moderate to 1.3 percent in 2024, mostly due to a steep drop in betel nut prices. In 2025, growth is expected to remain broadly unchanged at 4.6 percent, supported by the non-resource sector and by the return of the Porgera mine to full production. Average core inflation is projected to edge up to 4.5 percent. Over the medium term, growth is projected to stabilize at around 3 percent, supported by the non-resource sector, and inflation is expected to converge to 4.5 percent.

12. Risks to the outlook are tilted to the downside (Annex I). Downside risks include a drop in commodity prices, weaker external demand, and natural disasters. Further political and social instability could hinder economic growth by undermining the implementation of the reforms and deteriorating the business environment. Tensions among local communities at the Porgera gold mine could disrupt its production. The legal dispute between the authorities and the main fuel importer could lead to economy-wide fuel supply issues in the absence of a resolution. Domestic budget financing might be challenging if liquidity is tight and domestic borrowing costs increase more than expected. PNG is highly vulnerable to the consequences of climate change and particularly exposed to severe climate-related disasters (Annex II). Inflation could be higher than expected, if a broad-based depreciation of the US$ compounds the gradual depreciation of the Kina against the US$. Upside risks include higher commodity prices and the kickoff of the construction of major resource projects, including the most advanced project, Papua LNG, which has, however, been delayed to 2025/2026.

PROGRAM PERFORMANCE

13. Program performance has been satisfactory, with all end-June 2024 QPC and indicative targets (ITs) met (Text Table 1). At end-June 2024, the fiscal deficit was lower than the QPC ceiling, while non-resource tax revenue and priority spending were both well above their respective indicative floors. The NIR remained above the QPC floor, while the BPNG's gross credit to the government was below the QPC ceiling. PNG has not accumulated new external or domestic arrears, and new external debt remained significantly below the present value QPC. All indicative targets at end-September 2024 were met, except for the IT on non-resource tax revenue, which was marginally missed. The authorities did not impose any new exchange restrictions or intensify existing exchange restrictions and there was no Multiple Currency Practices (MCPs), as monitored under the IMF's revised MCP policy.

14. The structural reform agenda is progressing (Table 12). Two out of the four structural benchmarks (SBs) due by end-October 2024 were met,[5] while the SB on the cleansing of payroll records has been partially implemented. However, the SB on the appointment of the Independent Commission Against Corruption (ICAC)'s oversight committee, which was due by end-September

[5] Two SBs due by the second reviews – developing an initial worksheet of key performance indicators for the Internal Revenue Commission (due by end-May 2024) and setting up an interagency working group on external sector statistics (due by end-June 2024) – were also both confirmed to be met.

2024, has been facing delays; the deadline is proposed to be reset to end-March 2025. Other ongoing SBs due by the fourth reviews have progressed, with the support of Fund technical assistance; for instance, the drafting of amendments to the Income Tax Act (ITA) and the Internal Revenue Commission Act (IRCA) is nearing completion (MEFP ¶11).

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

	2024								
	March Indicative target			June Test date			September Indicative target		
	Approved	**Outcome**	Status	Approved	**Outcome**	Status	Approved	**Outcome**	Status
A. Quantitative performance criteria 1/									
Fiscal deficit of the government (ceiling, cumulative from the beginning of the year)	1,586	**1,434**	met	3,014	**1,923**	met	4,132	**2,274**	met
Stock of net international reserves of the BPNG (floor, US$ millions)	2,500	**2,830**	met	2,350	**2,825**	met	2,200	**2,817**	met
BPNG's gross credit to government (ceiling)	2,400	**2,024**	met	2,400	**2,114**	met	2,400	**2,126**	met
B. Continuous quantitative performance criteria (ceilings) 2/									
New external payment arrears of the government (ceiling, US$ millions)	0	**0**	met	0	**0**	met	0	**0**	met
Present value of new external debt contracted or guaranteed by the government (ceiling, US$ millions) 3/	1,072	**0**	met	1,072	**0**	met	1,072	**0**	met
C. Indicative Targets									
Non-resource tax revenue of the government (floor, cumulative from the beginning of the year)	2,935	**3,075**	met	5,871	**6,706**	met	10,714	**10,702**	not met
New domestic payment arrears of the government (ceiling)	0	**0**	met	0	**0**	met	0	**0**	met
Social and other priority spending (floor, cumulative from the beginning of the year) 4/	525	**1,735**	met	1,575	**3,091**	met	2,958	**4,742**	met
Stock of unmet import-related FX payments in the orderbook (ceiling)	150	**46**	met	125	**0**	met	100	**0**	met

Sources: Papua New Guinea authorities and Fund staff estimates.
1/ Quantitative performance criteria listed under A. and indicative targets listed under C. are assessed as at the end of each reference month above.
2/ Quantitative performance criteria listed under B. are effective continuously from program approval.
3/ Annual for 2024.
4/ Comprises government spending on health, education and law and order (both capital and operating expenses).

POLICY DISCUSSIONS

A. Fiscal Repair

15. The authorities are committed to the fiscal adjustment, in line with their medium-term fiscal repair strategy. Amid tightening domestic financing conditions, the authorities remain committed to reducing the deficit by 0.4 pp of GDP to 3.9 percent in 2024 (MEFP ¶13). The adjustment is expected to be achieved largely through revenue mobilization, with a moderate increase in non-resource tax revenue (0.3 pp of GDP) and a rebound in grants (0.8 pp of GDP), despite a projected decrease in resource revenue (-0.5 pp of GDP), after they reached very high levels in 2022 and 2023. The revenue overperformance relative to the second reviews allows for an offset of the increases in payroll spending for the education and health sectors, and in interest payments due to the increase in domestic financing costs relative to the 2024 budget.

Text Table 2. Papua New Guinea: Fiscal Adjustment Plan, 2022-2027
(In percent of GDP)

	2022	2023	2024		2025	2026	2027
					Proj.		
			Prog. Second Rev.	*Latest*			
Revenue and Grants 1/	**16.6**	**17.9**	**18.3**	**18.7**	**19.3**	**19.6**	**20.0**
Revenue	15.3	16.9	16.5	16.9	17.6	17.9	18.4
Resource revenue	3.9	3.9	3.4	3.3	3.7	3.9	4.1
Non-resource revenue	11.4	13.0	13.2	13.6	13.9	14.1	14.3
Non-resource tax revenue (% non-resource GDP)	16.4	17.1	17.4	17.6	17.8	18.0	18.1
Grants	1.3	1.0	1.8	1.8	1.7	1.7	1.7
Expenditure	**21.9**	**22.3**	**22.2**	**22.6**	**21.9**	**21.0**	**20.0**
Expense	17.9	19.0	18.2	18.6	18.1	17.4	16.6
Net acquisition of non-financial assets	4.0	3.3	4.0	4.1	3.8	3.5	3.4
Overall balance	**-5.3**	**-4.3**	**-3.9**	**-3.9**	**-2.6**	**-1.3**	**0.0**
Primary balance	-2.9	-1.8	-1.3	-1.5	0.0	1.3	2.5
Non-resource net lending (+)/borrowing (-)	-9.1	-8.2	-7.3	-7.2	-6.3	-5.2	-4.0
Non-resource primary balance	-6.8	-5.7	-4.6	-4.8	-3.7	-2.6	-1.6
Fiscal adjustment	**-12.1**	**0.9**	**0.4**	**0.4**	**1.3**	**1.3**	**1.4**
Revenue and Grants	*1.5*	*1.3*	*0.4*	*0.8*	*0.6*	*0.3*	*0.4*
Expenditure	*-0.1*	*0.4*	*0.0*	*0.4*	*-0.7*	*-0.9*	*-1.0*

Sources: Department of Treasury; and IMF staff estimates and projections.
1/ Does not include projected revenues from new mining projects where the investment decision has not yet been reached.

16. **Fiscal consolidation is expected to continue in the 2025 Budget, consistent with the authorities' fiscal repair strategy (MEFP ¶14).** They aim to achieve an ambitious reduction of the fiscal deficit of 1.3 percent of GDP compared to 2024, largely relying on revenue mobilization and expenditure rationalization measures.

- ***Revenue*** is expected to increase by 0.7 pp of GDP (0.6 pp of GDP including grants), driven by higher goods and services tax (GST) (0.2 pp of GDP), thanks to the roll-out of the withholding of GST at source for SOEs and subnational governments, and higher non-tax revenue (0.6 pp of GDP), thanks to the adoption of a clear dividend policy for state holding companies and the full effect of the implementation of the Non-Tax Revenue Administration (NTRA) Act.

- ***Expenditure*** is expected to decrease by 0.7 pp of GDP compared to 2024, including a significant effort to reduce payroll (-0.2 pp of GDP) and goods and services (-0.3 pp of GDP), in line with the government's strategy to contain recurrent spending and improve efficiency. To help protect the most vulnerable, the floor on priority social spending (IT) is proposed to represent a higher share of total expenditure than in 2024 (MEFP ¶15). However, interest expenditure will increase (+0.1 pp of GDP) due to the rise in treasury bill and bond yields. To offset the rising interest payment, the authorities intend to keep Public Investment Programs (PIP) at the same nominal level as in 2024, leading to a decrease of capital expenditure (-0.3 pp of GDP).

17. **The authorities intend to stay the course on fiscal consolidation over the medium term (MEFP ¶15).** Their fiscal repair strategy envisions a consolidation path that entails a balanced budget

by 2027 and surpluses thereafter. This path is largely underpinned by sustained domestic revenue mobilization efforts in line with the MTRS, continued expenditure rationalization, and a prudent mix of external and domestic borrowing, while taking rising domestic interest costs and large development needs into account. If fully executed, the envisaged fiscal consolidation strategy would strengthen debt sustainability by lowering public debt to 42.5 percent of GDP in 2029 from 53.7 percent in 2023. In the event revenue underperforms, the authorities stand ready to implement contingency measures (MEFP ¶16). Reviewing the design and calibration of the medium-term fiscal framework could help enhance resilience against commodity price shocks.

18. Strengthening revenue collection by implementing the MTRS remains key to a successful fiscal consolidation strategy (MEFP ¶17 and ¶18). Further substantial amendments to the Income Tax Act (ITA), with the support of IMF TA, would help streamline the tax system, including by removing tax provisions that are no longer relevant and closing tax loopholes, while making it easier to comply with the income tax system; progress has been achieved on the amendments and their supporting regulations, with FAD support (ongoing SB by end-December 2024). The IRC has already finalized an initial set of key performance indicators, to enhance revenue administration. To reinforce the IRC's accountability, the authorities are also preparing amendments to the IRC Act to create an oversight board, with the support of IMF TA (ongoing SB by end-December 2024).

19. Efforts to improve expenditure efficiency are ongoing, with the aim of creating additional space for social and capital spending.

- ***Payroll management*** (MEFP ¶21)**.** Based on the authorities' outcome report received in September 2024, the cleansing of payroll records has made progress, most notably with the completion of the registration of all public servants on the PNG National Identification (NID) system in the National Capital District (NCD) and the move of about 60 percent of unattached officers[6] identified in 118 central agencies to centralized positions. However, progress has been slower than expected, largely due to capacity and resource limitations, particularly in expanding the exercise to remote provinces. Hence, in the short run, the authorities will re-focus their data cleansing efforts in the NCD. This will entail categorizing all remaining unattached officers; correcting anomalies in employee demographic data for the economic and administrative sectors; and integrating NID registration numbers in the AscenderPay IT system for all NCD public servants (**new proposed SB due by end-March 2025**). The Department of Personnel Management (DPM) will also initiate nationwide data cleansing exercise for all teachers and prepare the upgrade of AscenderPay (payroll IT system).

- ***Expenditure management and controls*** (MEFP ¶22 and ¶23)**.** The authorities remain committed to clear the stock of accumulated arrears. No further payroll arrears were accumulated as of end-June 2024 and domestic debt has continued to be paid on time (IT). To help prevent the accumulation of new arrears, particularly for goods and services, the authorities are working on improving commitment accounting, and the management of multiyear contracts, as well as

[6] Prior to these regularizations, the issue of unattached officers was estimated to cost on average about K200 million every year to the Government.

modernizing IT systems to enable a more automated and timely monitoring of budget execution. To further improve debt management processes, the authorities commit to creating an interface between the debt reporting system (Meridian) and the Integrated Financial Management System (IFMS) to automate the transfer and reconciliation of debt data across the two IT systems (**new proposed SB due by end-September 2025**). This will enhance operational efficiency as well as data accuracy.

- ***Cash management*** (MEFP ¶24)**.** The authorities have significantly reduced the consolidated balance of trust accounts in 2023 and have closed all remaining COVID-related emergency trust accounts by September 2024. To modernize cash management practices and reduce excess government cash in the banking system, the authorities intend to formulate a sequenced implementation plan for a Treasury Single Account (TSA), with FAD support **(new proposed SB due by end-December 2025)**.

- ***Public investment efficiency.*** To improve economic outcomes from infrastructure investment, the authorities plan to enhance their infrastructure governance practices. On top of its climate focus, FAD's recent Climate PIMA pointed to critical shortcomings in public investment management frameworks, highlighting the urgency of a full FAD PIMA diagnostic (as requested by the authorities) (MEFP ¶19).

20. The authorities remain committed to a prudent external borrowing policy to preserve debt sustainability. The recent tightening of domestic liquidity conditions, which affected planned domestic debt issuance this year, highlights the importance of continued prioritization of concessional loans and grants, alongside semi-concessional financing for critical projects, which will also ensure that debt enters a downward trajectory. In this context, amid lower domestic issuance, the authorities adapted their borrowing plans, relying on more concessional external borrowing than initially planned for this year to finance the deficit (MEFP ¶25). Accordingly, the PV limit on new external borrowing (QPC) is proposed to be revised up to US$ 1,425 million, from US$ 1,072 million agreed at the time of the first reviews. In line with the authorities' plans for the 2025 budget deficit, the limit is proposed to be set at US$ 810 million (higher than the indicative target set in the previous reviews for March and June 2025, when the authorities had not yet initiated budget preparations), with the DSA acting as the critical anchor to define these limits. The authorities are also preparing their strategy for the maturing of the 2028 Eurobond (MEFP ¶27); a partial rollover of the Eurobond is now assumed.

21. Prospective balance of payments needs related to climate change adaptation risks and related investments mean breaches of relevant debt thresholds and benchmarks can be longer-lived in an alternative scenario[7] (DSA, Figures 1 and 2). Protracted breaches in the alternative scenario show the importance of amassing donor support in the form of concessional borrowing and grants, as well as the role of the private sector, to finance climate adaptation needs (for details, see Annex II).

[7] For details on the alternative scenario, see ¶25-27 of the Debt Sustainability Assessment.

B. Central Banking Policies

22. The kina has gradually depreciated against the US$ under the *de facto* crawl-like exchange rate framework implemented since January 2024 (MEFP ¶29). From the beginning of the program to mid-October 2024, the kina has cumulatively depreciated by 10.5 percent against the US$. While kina overvaluation has decreased, given the appreciation of the US$ against other currencies over the same period, the kina has depreciated by less in nominal and real effective terms. In early July, the BPNG carried out its first biannual update of the rate of crawl, based on the formula agreed under the *de facto* crawl-like exchange rate arrangement. The authorities are determined to resolve the misalignment of the exchange rate during the program and will continue to assess and address the overvaluation in line with the crawl.

23. To ensure consistency with the *de facto* crawl-like arrangement and anchor inflation expectations, the BPNG tightened its monetary policy stance (MEFP ¶30). Since April 2024, the Kina Facility Rate (KFR) has increased by a cumulative 200 basis points to 4.0 percent, combined with an increase of the CRR ratio by 200 basis points to 12 percent. The KFR remains below its pre-pandemic level (5-6 percent on average), calling for further increases. The CRR ratio is however at its highest level in at least two decades. The further increase in the CRR ratio in May-June 2024 has also exacerbated the uneven distribution of liquidity among the four major commercial banks, as evidenced by participation in the CBB auctions being concentrated in the two foreign banks; this calls for a recalibration of the CRR ratio.

24. The BPNG remains committed to the gradual elimination of FX rationing measures in the transition to Kina convertibility, in line with its Roadmap (MEFP ¶31). To safeguard FX reserves, the NIR floor (QPC) still applies, unchanged relative to the second review. While remaining compliant with the QPC, the BPNG has been actively intervening in the market, under a new FX auction framework, to help address essential orders and gradually reduce the backlog of goods import orders. The economy still faces a persistent mismatch between FX supply and demand, as well as pent-up FX demand which is expected to gradually improve as the misalignment of the exchange rate is reduced. As long as there is a persistent backlog for essential FX orders, and given several large capital outflow operations in recent months, the BPNG has recently reiterated, in the form of a directive, the existing requirement for authorized foreign exchange dealers to use all FX flows to clear essential orders first. To ensure that essential orders are swiftly addressed, an indicative ceiling on the stock of unmet import-related orders in the order book is in effect. This indicative target was met in Q2 by end-June 2024.

25. The BPNG stays focused on reforming its monetary operations to further enhance liquidity management and improve monetary policy transmission (MEFP ¶32). The FRFA auctions and the alignment of their rate with the KFR helped absorb substantial excess liquidity, but the level of precautionary reserves has stayed elevated due to a lack of clarity on resourcing short-term liquidity and the pending implementation of further reforms. To help reduce excess liquidity and alleviate the banks' need for higher precautionary reserves, the authorities have implemented an interest rate corridor centered around the KFR and bounded by standing overnight facilities priced at

±150 bps around the KFR (SB met) and modified the reserve requirement framework by introducing partial reserve averaging and extending the lagged maintenance period (SB met). The BPNG will ensure that financial institutions not subject to reserve requirements will no longer have access to the CBB auctions (***new proposed SB by end-January 2025***). To further enhance liquidity management, the regular issuance (every four weeks) of a new 28-day CBB to reserve-maintaining and supervised financial institutions, in competitive auctions and with BPNG as price taker, is ***proposed as a new SB by end-February 2025***. With MCM support, the BPNG will also develop a liquidity forecasting framework and liquidity monitoring tables, to enable the preparation of weekly forecasts for the Monetary Operations Committee (***new proposed SB by end-July 2025***).

26. Amendments to the Central Banking Act (CBA) to address several key vulnerabilities in the BPNG's mandate, governance, and autonomy have been adopted by Parliament in early September 2024 (MEFP ¶33). The most significant improvements include: (i) a clearer ranking of the central bank's objectives, with price stability as the BPNG's primary objective, and a clearer separation of objectives and functions; (ii) the establishment of a Monetary Policy Committee in charge of monetary policy formulation, ensuring its separation from the oversight role of the Board; and (iii) limits on the provision of temporary advances to the government. Other improvements include the introduction of lender of last resort and emergency liquidity assistance frameworks.

C. Governance and Anti-Corruption Framework

27. The authorities remain committed to strengthening their anti-corruption framework (MEFP ¶36). Progress has been achieved in operationalizing the Independent Commission Against Corruption (ICAC), including the adoption of implementing regulations to the ICAC law, procedure manuals and guidelines, the move to more secure IT solutions, and the hiring and training of new staff, supported by an increased operational budget. To align with best-practice governance standards, the appointment of ICAC's oversight committee, in application of the ICAC law, was expected to be carried out by end-September. However, the advertising process took longer than planned due to delayed funding; the deadline for the SB is thus proposed to be ***reset to end-March 2025***. To enhance cooperation and information flows among anti-corruption bodies, the ICAC is working to finalize and sign draft memoranda of understanding with key government agencies involved in the fight against corruption (ongoing SB by end-December 2024).

28. Additional efforts are needed to further enhance the financial governance of state-owned enterprises (SOE) and state entities (MEFP ¶39). The IMF Statistics Departments and the ADB has been providing support to Kumul Consolidated Holdings (KCH) to improve the financial governance of SOEs in its portfolio, including by reinforcing the reliability and timeliness of the publication of financial information. However, financial statements for state entities in the resource sector have not been published for years. To make the calculation and payment of dividends to the government more transparent, the adoption of a clear dividend policy by the National Executive Council for state holding companies (KCH, Kumul Petroleum and Kumul Minerals), is ***proposed as a new SB by end-February 2025***.

29. The authorities are advancing their reform agendas in AML/CFT and in data quality and transparency. The Asia/Pacific Group on Money Laundering (APG) mutual evaluation report against the FATF standards is expected to be published in November 2024 (MEFP ¶35). The authorities have kickstarted efforts to implement its recommendations, also in line with their AML/CFT Strategic Plan 2023-27, some of which could inform SBs in future program reviews. Efforts are also ongoing to improve the consistency of statistics, especially for the external sector, and increase the frequency of in-year fiscal reporting (MEFP ¶38), as well as improving transparency around procurement information (MEFP ¶37).

RSF ARRANGEMENT: IMPROVING CLIMATE RESILIENCE

30. PNG is significantly more exposed and vulnerable to the effects of climate change than regional and income-level peers (Annex II, Section A). Due to climate change, PNG faces risks of sustained increases in temperatures and precipitation, a rise in sea levels, and ocean acidification, which could all contribute to an increase in the frequency and intensity of climate-related natural disasters such as flooding, cyclones, droughts, and landslides. PNG ranks among the countries most at risk from natural disasters, combining high physical exposure of its population with very limited coping and adaptive capacities. While PNG's contribution to greenhouse gas (GHG) emissions is limited, the preservation of PNG's rainforest and coral reefs is critical for sequestering carbon and preserving global biodiversity.

31. Climate change is thus creating significant structural macroeconomic challenges for PNG. Climate change is expected to have large adverse effects on PNG's lives and livelihoods, with severe risks to food and water security, ecosystems, and critical infrastructure. These risks apply both to urban populations in coastal areas, exposed to a rise in sea levels and more intense cyclones, as well as rural, remote populations, exposed to lower agricultural yields and heightened risks of landslides. Ocean acidification and warming can also undermine marine ecosystems (coral reefs and fisheries) further disrupting coastal communities. These consequences would affect PNG's economic output. In the absence of additional adaptation efforts and under a high emissions scenario, climate change could trigger a loss of PNG's GDP of 4 percent by 2050 and 15 percent by 2100.[8] This, in turn, would worsen the government's fiscal position and apply upward pressure on public debt, as fiscal revenue would be negatively affected by the loss in economic output, while additional expenditure would be needed to help address economic and social damage from climate hazards. The balance of payments would also be negatively affected, as additional imports would be needed to support reconstruction efforts following natural disasters. Climate-related natural disasters can also disrupt production of export goods, thus further exacerbating balance of payment pressure.

32. Climate challenges compound the acute development challenges that PNG faces, particularly in rural areas. PNG's extreme poverty rate in 2019 was 28.4 percent, and access to electricity (19 percent of the population) and basic drinking water services (50 percent of the population) were the lowest in the Asia-Pacific region in 2022. Climate change could stall progress in

[8] Asian Development Bank (2013), The Economics of Climate Change in the Pacific.

implementing the authorities' Poverty Reduction and Growth Strategy (PRGS) outlined in the 2023-2027 Medium-Term Development Plan (MTDP IV).

33. The government of PNG has proactively made international climate commitments and incorporated climate change considerations into its policy agenda. PNG ratified the Paris Agreement in 2016, demonstrating its commitment to international climate goals. The authorities submitted their Enhanced Nationally Determined Contribution (NDC) in 2020, expanding from the 2015 NDC's initial focus on adaptation to include mitigation, capacity building, and financing. PNG also developed a National Adaptation Plan (NAP) in 2023 and a strategy under the Reducing Emissions from Deforestation and Forest Degradation (REDD+) program. Key targets include carbon neutrality in the energy sector by 2030, complete carbon neutrality by 2050, an increase in the share of renewable energy capacity from 30 to 78 percent of the energy mix by 2030, and enhanced carbon absorption from forest resources. Climate change also features as a major policy area in PNG's development and sectoral strategies, including: PNG Vision 2050, which emphasizes inclusive and sustainable growth as part of the country's long-term strategic goals; the MTDP IV, which recognizes the importance of implementing climate actions to achieve low-carbon and climate-resilient development as well as the need for effective disaster risk management; and several notable sectoral plans and strategies, particularly in the road and energy sectors.

34. The ability to implement these policies is hampered by insufficient financing and limited institutional capacity. Annual public adaptation costs needed in PNG by 2030 to upgrade and retrofit existing infrastructure and to launch new investments for coastal protection are estimated by the IMF at least 2 percent of GDP.[9] Despite a notable increase in adaptation-related development finance commitments received by PNG since 2015 (Annex II, Section C), only a small part of adaptation needs have been effectively met so far. In addition, disaster risk financing is insufficient. Budget allocations for disaster response only cover a small part of the infrastructure damage and welfare losses faced by the population. *Ex ante* financing mechanisms are non-existent. On top of these financing gaps, climate policy implementation suffers from limited institutional capacity and traction. The 2015 Climate Change Management Act (amended in 2021 and 2023) served as an important legal milestone to provide an institutional and regulatory framework for climate policy making and implementation, leading to the creation of the Climate Change Development Agency (CCDA), which is the central coordinating agency for climate-related policy development and NDC implementation. Yet, a lack of strong coordination between departments and the limited mainstreaming of climate considerations in public financial management and public investment management processes have hindered policy effectiveness.

Reform Measures Under the RSF-Supported Arrangement

35. The RSF will contribute to reducing macro-critical risks to PNG's prospective balance of payments stability associated with climate change. By supporting critical climate policy reforms, the RSF will help build policy buffers and contribute to enhancing the effective implementation of PNG's climate commitments. It will also help catalyze financing for climate and sustainable

[9] IMF (2021), Fiscal Policies to Address Climate Change in Asia and the Pacific, Chapter 4.

development from bilateral and multilateral donors, supported by increased capacity development activities.

36. The proposed reform measures (RMs) are focused on priority policy areas to help enhance PNG's resilience to climate change. The arrangement will target four main areas (MEFP ¶42): 1) enhancing disaster risk management efforts; 2) integrating climate change considerations into public investment management processes and budget decision-making; 3) supporting the development of green and inclusive finance; and 4) supporting mitigation policies, particularly in the field of forestry and fuel consumption. The proposed RMs are informed by the recent Climate Policy Diagnostic (CPD) and Climate Public Investment Management Assessment (CPIMA), in addition to consultation with the authorities and development partners (DPs). PNG's Enhanced Nationally Determined Contribution (NDC), National Adaptation Plan (NAP), and Inclusive Green Finance Policy also provided key inputs to RMs. Information on implementation timelines for the RSF-supported RMs, key regulatory milestones, responsible stakeholders, and CD activities, some of which will be provided by the WB and other DPs, are presented in Text Table 3 and Table 13. RSF-supported reforms (i) aim to address macro-critical structural climate vulnerabilities within IMF competencies, (ii) complement support by DPs, and (iii) are expected to be achieved within the concurrent IMF ECF-EFF arrangements' timeline. RMs are a subset of broader climate policies adopted by the authorities to enhance climate resilience (see Annex II, Section B for details).

A. Enhancing Disaster Risk Management Efforts

37. Given PNG's high and growing exposure to climate related disasters, building capacity to monitor risk and respond to disasters is critical to preserve lives and livelihoods and increase resilience (MEFP ¶43). The RSF can support the authorities in strengthening their disaster risk management framework and developing more predictable disaster risk financing mechanisms.

38. Data on natural hazards is either fragmented or lacking, calling for efforts to enhance hazard mapping and to centralize information (MEFP ¶43, bullet 1). Climate change is putting infrastructure assets under growing risk of damage from natural disasters, underscoring the urgency to ensure availability and access to hazard data for infrastructure project developers and managers. Responsibilities for hazard mapping span multiple departments and agencies, depending on the type of information and the type of hazard. There is no central location or portal that brings all hazard information together in one place, contributing to hampering the ability to raise awareness about climate-related disasters. It also limits the ability to identify significant disaster risks when planning infrastructure, and to take actions to reduce exposure to hazards or to reduce their impacts when they do occur, which have all been identified as priorities in the authorities' 2017-2030 National Disaster Risk Reduction Framework. A lead agency – such as the National Disaster Center (NDC) or the CCDA – will be formally tasked to manage a stock take of current hazard mapping systems, with the support of the United Nations Development Program (UNDP), and publish existing hazard mapping data on a public website (**RM1**). This RM will also allow to enhance the implementation of RM4 (below), as it would improve the quality of risk-screening for investment projects.

39. PNG's 40-year-old legal and institutional framework for disaster risk management (DRM) requires a critical update to improve its effectiveness (MEFP ¶43, bullet 2). The 1984 Disaster Management Act (DMA) is the main law governing disaster risk management institutions in PNG, leading to the creation of national and provincial disasters committees, along with the NDC at the Ministry of Defense, for operational coordination. The NDC is currently undertaking a review of the DMA, although review efforts have been ongoing since 2013, but never completed. Amending the DMA will allow to at least: (i) clarify roles and responsibilities in DRM; (ii) codify and develop *ex ante* DRM actions (including early warning systems), and (iii) set up a DRM structure below provincial levels (**RM2**). Amendments should tackle at least the three areas listed above, and the contents should be developed with the technical support of the UNDP, and in consultation with the IMF before submission to Parliament. This is expected to bring durable institutional changes, including at the local level, and to enhance the ability to deploy appropriate *ex ante* and *ex post* disaster risk responses.

40. Enhancing the predictability of resources and the strategic understanding on disaster risk financing should help make DRM implementation more effective (MEFP ¶43, bullet 3). Some budget resources are allocated to DRM in the annual budget but are often insufficient to cover the needs and may take time to reach their destination (the processes for the provision of emergency allocations and the procurement of emergency goods can take several weeks). While the PNG government has begun to evaluate mechanisms outside of the usual budget channels, such as *ex ante* financing options, insurance and post-disaster cash transfers, the authorities lack an overarching strategic view as to how these alternative channels (including from private sector and civil society organizations) may be fostered to strengthen financial resilience. Given the need for such strategic planning, a Disaster Risk Financing Strategy (DRFS) will be developed by the Treasury, in coordination with the NDC and the CCDA, and formally adopted and published (**RM3**), after a technical diagnostic supported by the IMF. The DRFS will help strengthen *ex ante* budgetary planning and propose a mix of risk transfer and risk retention instruments to ensure cost-effective coverage of disaster risk responses and to help reduce fiscal risks associated with disasters.

B. Integrating Climate Considerations into Public Investment Management Processes

41. Embedding climate considerations in public investment management (PIM) processes is critical to ensure the development and maintenance of climate-resilient infrastructure (MEFP ¶44). The recent CPIMA mission found that climate-sensitive PIM is only at an early stage in PNG and critical steps need to be taken to enhance climate-awareness and climate resilience in public investment management.

42. Taking climate-related disaster risk exposure into systematic consideration when appraising and selecting public investment projects will help enhance the resilience of infrastructure (MEFP ¶44, bullet 1). The appraisal and selection processes for major domestically-financed infrastructure projects do not currently require climate-related analysis to be conducted, including on risk exposure and management. The 2023 PIP Management Guidelines contain a brief discussion of project risk management, with a simple template to complete for each project, but do not discuss risks from disasters or climate change. The Department of National Planning and Monitoring (DNPM) leads the initial selection of investment projects for inclusion in the annual budget on the basis of project identification documents provided by sectoral departments and SOEs, within a ceiling determined by the Treasury, with further consideration by the Strategic Budget Committee and central agency secretaries before submission to the Ministerial Economic Committee. Criteria for the selection of new capital investment initiatives in the annual budget are currently not referred to in the budget circular for the development budget. To prevent new investments in long-lasting vulnerable infrastructure, the use of climate-related disaster risk screening at the project identification stage should be required. With the support of IMF TA, the Department of National Planning and Monitoring (DNPM) will deliver on the following measures: (i) develop a methodology for climate-related disaster risk screening; (ii) require inclusion of the results of this screening in the project identification documents; and, (iii) beginning with the budget circular for the 2026 Budget, require departments[10] to undertake that screening for any new proposed major capital project (costing PGK 10 million or more) (**RM4**). While this framework can rely at first on immediately available information, the screening exercise will benefit from enhanced hazard mapping information in its second year thanks to the later implementation of RM1.

43. Incorporating a climate dimension in PNG's regulations for public investment will help provide a formal framework to address climate risks to public investment (MEFP ¶44, bullet 2). PNG's legal framework does not cover PIM processes in specific terms. Neither the Public Finances (Management) Act 1995 (amended in 2018), which covers budget preparation and execution processes, nor the Planning and Monitoring Responsibility Act (PMRA) 2016, which sets the framework for capital planning and investment, provide detailed guidance on the different stages of the PIM cycle. In addition, none of these acts include climate provisions. While amending this legal framework is a medium-term priority to regulate the investment project cycle and build in climate considerations at each step, a more responsive and shorter-term solution is to develop regulations in accordance with the PMRA, which empowers the Head of State to issue regulations to support its implementation. Supported by IMF technical assistance, the DNPM, CCDA, and the Treasury, will jointly develop and adopt PIM regulations to govern the whole capital project cycle (including planning, appraisal, selection, routine and capital maintenance) and incorporate climate change considerations (**RM5**); the regulations will codify the risk screening framework implemented under RM4 and set mandatory requirements for climate-informed maintenance for all sectors, such as those to be tested under RM6. The regulations will empower and reinforce the 2023 Public Investment Program (PIP) Management Guidelines, which prescribe the PIM processes but do not elaborate on climate considerations.

44. Routine and capital maintenance of existing infrastructure, informed by the impacts of climate change, is a key component of an effective adaptation strategy (MEFP ¶44, bullet 3). PNG authorities do not have formal definitions for routine maintenance (typically funded in the operational budget) or for capital maintenance, which includes reconstruction and rehabilitation of

[10] The budget circular for year Y is typically issued in June/July Y-1. The implementation of the RM, due by end-March 2025, will be measured on the basis of the draft circular.

infrastructure assets (funded in the capital budget). There is a lack of formal methodologies to estimate maintenance requirements generally, although the Department of Works and Highways (DoWH) has developed standards and costing methodologies for road assets, and has set up a road asset register, the Road Asset Management System (RAMS). These have yet to be informed by the impacts of climate change. Given the criticality of infrastructure maintenance in climate adaptation[11], particularly for network infrastructure, the DoWH will pilot the incorporation of climate change considerations in maintenance standards and costing applied to national roads (**RM6**), with support from the World Bank and the ADB. This pilot project could then pave the way for standardized methodologies for planning and estimating maintenance needs, including climate-related, for other road and bridge assets, and more widely across government agencies, in line with regulations developed under RM5. Efforts to integrate information on the vulnerability of assets to disasters in the RAMS will be pursued in parallel, based in the DoWH's existing efforts to carry out disaster risk assessments for major roads.

C. Supporting the Development of Green and Inclusive Finance

45. Creating an enabling environment and enhancing the capacity to increase donor confidence is vital for attracting climate finance in PNG (MEFP ¶45). With this regard, the proposed RSF will support the authorities with improving the climate information architecture, and with better coordinating policies and regulations, as essential prerequisites for increasing climate finance. This pillar will build on progress achieved under the 2023 Inclusive Green Finance Policy (IGFP) project, spearheaded by the BPNG. The goal is to support PNG's financial sector transition towards a more inclusive, sustainable, and resilient sector. Deliverables thus far have included an initial green taxonomy (first stage), and a diagnostic report on the state of climate finance in PNG, which also outlined an ambitious implementation roadmap. The authorities launched the Green Finance Center (GFC) in 2024 with the aim of coordinating activities related to inclusive and green finance initiatives.

46. Operationalizing the taxonomy and strengthening the climate information architecture is a key prerequisite for scaling up climate finance (MEFP ¶45, bullet 1). As the main deliverable thus far of the IGFP project, the authorities completed the first stage of their Green and Inclusive Taxonomy. The authorities are currently receiving further technical assistance to complete the taxonomy's technical screening criteria. Once fully implemented, the taxonomy will help financial sector participants identify, monitor, and report financial flows in line with country's climate objectives. The authorities will develop and formalize supervisory guidelines to financial institutions (FIs) on mandatory regulatory reporting of FIs' exposures in line with the green taxonomy along with implementation timelines as further detailed in the MEFP ¶45 (**RM7**), with the technical support of the International Finance Corporation (IFC), *Agence Française de Développement* (AFD), and ADB. The guidelines will focus on all on-balance sheet exposures, including corporate sector exposures, related

[11] According to IMF (2019), the upgrade and retrofitting of existing infrastructure represents more than half of the annual public adaptation costs needed in PNG by 2030.

to 3 priority sectors with technical screening criteria completed by mid-2025. It will be implemented on banks representing at least 90 percent of total banking sector assets in PNG.

47. Lack of a central database containing climate projects limits investor awareness as well as the ability to identify viable and bankable projects (MEFP ¶45, bullet 2). With this regard, through a memorandum of understanding between the BPNG and the Treasury, the GFC will be granted the authority to coordinate with other relevant institutions (MEFP ¶45) and collect data on climate investments from other institutions. Subsequently, with the technical support of the Global Green Growth Initiative (GGGI) and the UN Capital Development Fund (UNCDF), the GFC will develop and maintain a centralized database with climate mitigation and adaptation projects in line with the updated NDC and the taxonomy (**RM8**).

D. Supporting Mitigation Policies

48. To fulfill their international emissions reduction commitments, the PNG authorities need to enhance their mitigation efforts (MEFP ¶46). PNG's GHG emissions represented less than 0.01 percent of global emissions in 2022, and emissions per capita are very low.[12] That said, after long being a net carbon sink and despite the absence of explicit fuel subsidies, PNG is now facing a rise in GHG emissions due to forest degradation and the reliance on high-carbon energy sources. In this respect, well-designed tax policies can influence the behaviors of economic agents, incentivize activities with lower carbon content, and help address negative externalities, including for local communities. The proposed RSF will help the authorities strengthen their policies in two areas: (i) the taxation of fossil fuels, to support the reduction of their share in the energy mix and encourage the transition to cleaner energy sources and renewables; (ii) the taxation of the commercial logging sector, which has contributed to significant forest degradation in recent years and to increasing net GHG emissions as a result.

49. Rebalancing taxation on liquid fuels with higher carbon content could help support the transition to cleaner energy and electricity, which is key to meeting the increasing energy demand while achieving net zero emissions (MEFP ¶46, bullet 1). A large portion of PNG's transportation and electricity grid is reliant on liquid fuels with high carbon content (particularly heavy oil and diesel), which besides of emitting more GHG are also far more expensive than alternatives. This calls for policy mechanisms to gradually incentivize more carbon-efficient energy sources, while taking social considerations into account. The authorities will submit amendments to the Excise Tariff Act to parliament to shift the tax burden towards fuels with higher carbon content (**RM9**), in consultation with the Fund and in line with recommendations from IMF technical assistance. This RM would play a critical part in supporting the transition towards cleaner energy consumption and complement policies supported by development partners aimed at improving the reliability of electricity generation and at expanding access to renewables (see Annex II, ¶29, 30, and 35). The

[12] According to the EU's Emissions Database for Global Atmospheric Research, PNG had the 14th lowest GHG emissions per capita in 2022 out of 208 countries and territories.

authorities will explore the possibility of additional offsetting measures to protect the most vulnerable.

50. Designing appropriate carbon taxation on commercial logging activities could support the internalization of environmental costs related to forest degradation (MEFP ¶46, bullet 2). Forest degradation and deforestation have notably increased, becoming the primary sources of carbon emissions in PNG. The main cause of forest degradation is commercial logging, which accounts for 46 percent of the damage and disruption to forests. Regulations under the 1991 Forestry Act currently include 19 different levies payable by logging companies, with the level and applicability of the levies varying across concessions. Commercial logging companies are also subject to an export tax on unprocessed logs. However, this has placed a high tax burden on the sector, which has faced low export demand and unfavorable weather in recent years, putting activity and employment at risk. The National Forest Authority is currently reviewing the Forestry Act, which provides an opportunity to impose carbon levies to penalize unsustainable forestry and incentivize forest conservation. The authorities will carry out a comprehensive review of the current regime of existing royalties, taxes, and levies in the logging sector (**RM10**), with the technical support from the ADB, and are committed to implementing key proposals from the review. The review will allow to identify appropriate tax policy and administration reforms that would balance between mitigation objectives and the socio-economic importance of the sector for local populations, and to take into account prospects of climate border regulations. These reforms could have important co-benefits in terms of food and water security, resilience to natural disasters, and biodiversity.

PROGRAM MODALITIES AND OTHER ISSUES

51. Request for extension of the ECF-EFF arrangements. The proposed extension, until December 21, 2026, is warranted to ensure sufficient time to complete key reforms under the program (MEFP ¶12). The uncertain socio-political environment has led to a slowdown in the implementation of reforms. In addition, the authorities face the need to continue with a gradual approach to tackle exchange rate overvaluation and to address pent-up demand for FX, given the high passthrough and its impact on the most vulnerable, which affects the calendar for the next phases of BPNG's Roadmap regarding the removal of FX rationing measures. Enhancements to cash management also require more time, given the complexities associated with a move to a treasury single account in the context of a concentrated banking sector with a high bank-sovereign nexus. An additional review is proposed to be added and disbursements rephased, with the current last disbursement proposed to be split equally across the last two reviews.

Text Table 3. Papua New Guinea: Timeline of the RSF Reviews and RM Completion

	ECF-EFF 4th review Availability date March 18, 2025	ECF-EFF 5th review Availability date September 18, 2025	ECF-EFF 6th review Availability date March 18, 2026	ECF-EFF 7th review Availability date September 18, 2026
RSF approval December 2024	***RSF 1st review***	***RSF 2nd review***	***RSF 3rd review***	***RSF 4th review***
Pillar 1. Enhancing Disaster Risk Management Efforts		**RM1.** Set up a public website providing access to existing hazard mapping data, based on a stock take of current hazard mapping systems. The agency in charge of this exercise should be formally appointed. [NDC]	**RM2.** Submit to parliament amendments to the 1984 Disaster Management Act to update and modernize the DRM framework. Amendments will clarify roles and responsibilities in DRM, codify and develop ex ante DRM actions, set up a DRM structure below provincial levels and more broadly align the DRM framework with more modern international practice [NDC]	**RM3.** Develop, adopt and publish a comprehensive disaster risk financing strategy aimed at improving financial resilience against disasters. [Treasury, NDC, CCDA]
Pillar2. Integrating Climate Considerations Into Public Investment Management Processes	**RM4.** Develop a methodology for climate-related disaster risk screening and incorporate a requirement in the budget circular (starting from the draft circular for the 2026 Budget) to undertake that screening for any new proposed major capital project (i.e., above PGK 10 million), by including the assessment in the project identification documents. [DNPM, Treasury and sectoral institutions]		**RM5.** Develop and adopt Public Investment Management regulations to incorporate climate change considerations into the capital project cycle (including planning, appraisal, selection, maintenance). [DNPM, Treasury, CCDA] **RM6.** Pilot the incorporation of climate change considerations in maintenance standards and costing applied to national roads. [DoWH]	
Pillar 3. Supporting The Development Of Green And Inclusive Finance			**RM7.** Develop and formalize supervisory guidelines to financial institutions (FIs)mandating regulatory reporting of FIs' exposures aligned with the taxonomy, along with implementation timelines as specified in the MEFP. The guidelines will focus on all exposures related to 3 priority sectors with technical screening criteria completed by mid-2025. It will be implemented on banks representing at least 90 percent of total banking sector assets. [BPNG, GFC]	**RM8.** (i) Empower the Green Finance Center with the authority to collect data on climate investments from other institutions (government agencies and commercial banks) through a memorandum of understanding between BPNG and Treasury. (ii) Develop a centralized national database with climate mitigation and adaptation projects, in line with the updated NDC and the taxonomy. [BPNG, GFC]
Pillar 4. Supporting Mitigation Policies	**RM9.** Submit amendments to the Excise Tariff Act to parliament to shift the tax burden towards fuels with higher carbon content. [Treasury]	**RM10.** Carry out a comprehensive review of existing royalties, taxes and levies in the logging sector, to help identify appropriate tax policy measures to ensure a balance between mitigation objectives and the socio-economic footprint of the sector. [Treasury, IRC, Customs, PNGFA]		

52. **RSF access, phasing, and reviews.** PNG is eligible for RSF financing (Group B) and has demonstrated a track record of program implementation under the ECF-EFF and the second SMP. The

proposed access level is set at 75 percent of PNG's quota, or SDR 197.4 million (around US$ 265 million) based on the strength of the proposed RMs, and adequate capacity to repay the Fund. The proposed RSF and its access level are seen as a start to climate-related reforms, which will help catalyze financing from other donors (Annex II). The proposed RSF is intended for direct budget support and will provide PNG with more affordable financing at longer maturities. The RSF will have four reviews, with board dates scheduled to coincide with ECF-EFF reviews (no earlier than March 2025, September 2025, March 2026 and September 2026). The RSF phasing will reflect implementation of the reform measures, with each of the 10 measures equivalent to 7.5 percent of the quota, or SDR 19.74 million (Table 13). The RSF is proposed to expire on December 21, 2026.

53. Program monitoring and conditionality. ECF-EFF program performance will continue to be monitored through semi-annual program reviews based on QPC and ITs (Table 11) and SBs (Table 12). The ceiling on the PV of external debt is proposed to be modified for the rest of 2024 to US$1,425 million and, as from January 1, 2025, to US$810 million (continuous QPC, MEFP ¶26). The monitoring of RSF performance will be carried out according to the same calendar. Seven new SBs are proposed, adding to the four already ongoing. This includes an SB on finalizing payroll cleansing with a narrower geographical focus (centered on Port Moresby), given capacity and resource constraints. The deadline for the SB on ICAC's oversight committee is proposed to be reset from end-September 2024 to end-March 2025.

54. Burden sharing and financing assurances. The program is fully financed, with firm commitments for the upcoming 12 months and good prospects for the remainder of the arrangements (including the proposed extension). Assistance from the Fund continues to play a catalytic financing role with other multilateral and bilateral partners. Fund burden sharing (through the ECF/EFF arrangements) is expected to average 33.3 percent across the program.

55. Capacity to repay the Fund. PNG's capacity to repay the Fund is assessed to be adequate, although program risks are elevated amid high global and domestic uncertainty. Fund credit outstanding, including projected purchases under the ECF/EFF and the proposed RSF arrangements, will peak in 2026 at 4.1 percent of GDP, equivalent to around 8.8 percent of exports of goods and services and 41.5 percent of gross international reserves. Total debt service to the Fund will peak at 1.2 percent of exports of goods and services and 5.6 percent of gross international reserves in 2030 (Table 8). Downside risks include weaker external demand for PNG's exports, volatility in commodity prices, and natural disasters. Risks to capacity to repay are partially mitigated by a commitment to fiscal sustainability and macroeconomic stability in the medium term. In addition, macroeconomic projections are built on conservative assumptions regarding the prospects of the new resource projects, which are not part of the baseline projections.

56. Safeguards assessment. Since the completion of the update safeguards assessment in October 2023, vacant management and board positions have been filled, and the CBA has been adopted by Parliament. While the amendments have addressed some of the key vulnerabilities in the autonomy and governance of the central bank, other weaknesses in these areas remain. Further, a memorandum of understanding was signed between the Treasury and the BPNG on the servicing of interest arising from the 2021 SDR allocation; but correcting the accounting treatment and repayment responsibility of the allocation is pending. The external audit of BPNG's FY23 financial statement is being finalized and is pending publication. The authorities are committed to the implementation of remaining recommendations of the assessment (MEFP ¶33).

57. Program risks and mitigating measures. Risks to the program continue to arise from the authorities' limited institutional capacity and further slowdown in reform implementation in a volatile socio-economic and political environment. To address these risks, conditionality remains streamlined, focused, macro-critical, and informed by PNG's CES. Regular program monitoring meetings, both in-country via the Resident Representative Office (RRO) and virtually, with both the Treasury and the BPNG, have taken place to ensure focus on program targets and commitments. The RRO engages regularly with public and private sector stakeholders, as well as with the media, to communicate the objectives of the program and prevent inaccuracies or rumors.

58. Capacity development (CD). Ongoing and planned IMF CD activities are closely integrated into the program. In 2024 so far, IMF CD has supported the improvement of expenditure controls and cash management (FAD), the ongoing efforts to rewrite the ITA (FAD), and macro-fiscal forecasting at the Treasury and BPNG (ICD). FAD's CPD and CPIMA missions were both conducted in July-August 2024. A Financial Sector Stability Review (FSSR) was delivered by MCM in July 2024. Peripatetic MCM support for the implementation of the Roadmap is planned to start by end-October 2024, assisting BPNG with the implementation of a cohesive monetary policy framework, liquidity forecasting, and FX operations. Peripatetic STA support for improving quality of external sector statistics in undertaken via IMF Capacity Development Office in Thailand (CDOT). FAD's Public Investment Management Assessment (PIMA) mission has been requested by the authorities. Additional Fund TA has been requested to support the implementation of several RMs under the proposed RSF arrangement. Fund TA is complemented by (and coordinated with) other partners, including on the anti-corruption framework (UN and EU), governance of SOEs (ADB), national accounts and AML/CFT (Australia), and climate resilience (see Table 13 and Annex II for details).

59. Data gaps. While data reporting has been strengthened, in part to support program monitoring, shortcomings in National Accounts compilation, particularly the production of CPI and the coverage of External Sector Statistics, still need to be addressed. To support external statistics improvement efforts, the BPNG initiated an inter-agency working group including representatives from the NSO, Treasury Department, and PNG Customs Service and continues to work closely with CDOT on the enhancement (which includes reprocessing of historical time series in BPM6 format) and expansion of external sector statistics to eventually include international investment position estimates (MEFP ¶38). In a sign of technical and capacity shortcomings, the population census planned for June 2024 is facing significant delays and may not be completed for at least another year. The accurate enumeration of PNG's population, currently estimated at just over 12 million, is critical for public policy formulation. Climate change related data suffers from incompleteness and fragmentation, which some RMs under the RSF will contribute to addressing.

STAFF APPRAISAL

60. The economic outlook remains favorable, albeit with significant downside risks. Non-resource growth is expected to rebound in 2024 thanks to improved access to FX, while resource growth will benefit from the reopening of the Porgera gold mine. Inflation is projected to remain below its historical average in 2024, although core inflation is expected to increase, driven by food and transportation prices. There are large downside risks to the economic outlook, including commodity price volatility, natural disasters, and ongoing tensions with local communities at the Porgera gold mine. Socio-political uncertainty could delay structural reforms and hamper the business environment. The large resource projects in the pipeline, which are not included in the baseline for the program, constitute major upside risks over the medium term.

61. Program performance has remained satisfactory, **despite a more challenging political and social environment.** All QPCs and ITs have been met since the beginning of the program, and most SBs have been fully or partially implemented. Capacity development support remains critical to the effective implementation of structural reforms; the authorities have been proactive in requesting technical assistance from the IMF and other partners. Several critical structural reforms supported by the ECF-EFF arrangements, such as the return to kina convertibility or the move to a treasury single account, require a gradual approach, justifying the authorities' request for a seven-month extension of the ECF-EFF arrangements.

62. The fiscal repair strategy is helping to address debt sustainability risks, but the increase in domestic borrowing costs will make it more difficult to achieve a balanced budget by 2027. The deficit has been successfully reduced in the past three years, driven by higher resource and non-resource revenue-to-GDP ratios and a broadly stable expenditure-to-GDP ratio. While the authorities should continue to let the rates of government securities offered to market participants adjust upwards, consistent with the monetary policy stance and PNG's risk premia, this, however, will lead to an increase in interest expenditure. To achieve their ambitious fiscal targets in 2025 and into the medium term, staff supports the authorities' strategy, based on (i) revenue mobilization efforts and improvements to revenue administration via the implementation of the MTRS and the adoption of amendments to the ITA and IRCA; (ii) further spending rationalization and efficiency gains through improved payroll management and enhanced expenditure controls and cash management, including by gradually moving to a treasury single account; and (iii) prudent borrowing plans geared towards more concessional and longer-term financing. Conservative assumptions and clear contingency plans remain key to a successful consolidation. Staff encourages the authorities to review the design and calibration of their medium-term fiscal framework to strengthen resilience to commodity price volatility.

63. A tightening monetary policy stance via an increase in the KFR remains necessary, but the CRR ratio should be recalibrated. The BPNG continues to gradually depreciate the kina against the USD, in line with its *de facto* crawl-like arrangement. More adjustment is still needed to fully tackle the overvaluation, which is expected to create inflationary pressures. The level of the KFR is still accommodative, especially given the monetary stance of the reference currency. Commensurate increases to the KFR are needed to keep inflation in check. However, by keeping large amounts of liquidity captive and unremunerated, the CRR ratio, which is at an all-time high, has made the financial sector's liquidity management more challenging, particularly for domestic banks, with possible risks to their balance sheets. Staff encourages the BPNG to recalibrate the CRR ratio to free up liquidity and ease domestic market conditions.

64. The implementation of the BPNG's Roadmap is starting to bear fruit, but government-wide reforms to increase net FX inflows are also needed. Thanks to the toolkit developed by the BPNG, access to FX has improved. Reform efforts should continue in line with the Roadmap to support the gradual return to kina convertibility and continue modernizing liquidity management. As long as a mismatch between FX supply and demand persists, the prioritization of FX orders will remain critical to preserve domestic liquidity and avoid disorderly capital outflows. Members of the Monetary Policy Committee under the newly amended CBA should be appointed without delay to avoid any hiatus in policymaking. To complement the Roadmap and amplify benefits from the depreciation, staff supports the authorities' plans for government-wide policies to enhance export competitiveness and improve the business environment.

65. Improvements to the anti-corruption, governance, and AML/CFT frameworks should continue. Efforts to operationalize the ICAC should remain sustained, enabled by appropriate resource allocation. The adoption of a dividend policy for state holding companies and the timelier publication of their financial statements should contribute to enhancing financial transparency and accountability, particularly in the resource sector. Staff supports the government's efforts to implement the recommendations of APG's mutual evaluation report, particularly those aimed at enhancing the effectiveness of the AML/CFT framework.

66. Climate change presents major risks to PNG's macroeconomic stability, calling for the steadfast implementation of adaptation and mitigation policies. PNG's high exposure and vulnerability to climate-related natural disasters, as well as the expected consequences of climate change on food and water security, agriculture, and marine and forest ecosystems, constitute major threats to lives and livelihoods in both rural and urban areas. Climate change is expected to lead to significant economic losses, worsen the fiscal position, and create balance of payment pressures. These effects, however, could be mitigated by the effective implementation of the authorities' ambitious climate commitments, which also inform their broader development agenda.

67. The four RM pillars supported by the proposed RSF arrangement are critical for improving PNG's resilience to climate change. They are: (i) making disaster risk management and financing frameworks more responsive to climate-related hazards; (ii) embedding climate considerations into public investment management practices to ensure that existing and new infrastructure are made more resilient to climate change; (iii) creating an enabling environment for an effective ramp-up in green and inclusive finance, including in the private sector; and (iv) incentivizing carbon efficiency in fuel consumption and forestry activities.

68. To achieve its ambitious climate commitments, PNG will need substantial financial resources and extensive capacity development. The RSF is expected to catalyze climate finance and reinforce ongoing and planned technical assistance activities, while fostering tighter coordination among development partners.

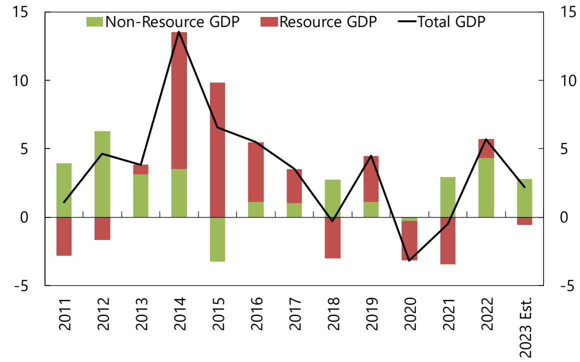
69. Given the satisfactory program performance and the authorities' sustained commitment to reforms, staff supports the completion of the third reviews under the EFF and ECF arrangements, requests for extension, rephasing and modification of the performance criterion, and request for access to the RSF. The Letter of Intent (Appendix I) and Memorandum of Economic and Financial Policies (Attachment I) demonstrate program ownership and appropriate policies to reach the goals of the authorities' programs.

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

Real GDP softened due to contraction of the resource sector.

Real GDP Growth

(Contributions to percent change)

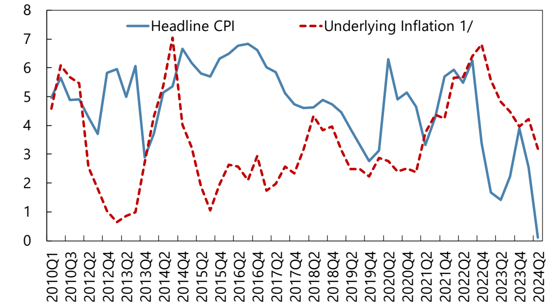


Source: IMF Staff Estimates

Inflation remained subdued in the first half of 2024.

CPI Inflation

(In year-on-year percent change)



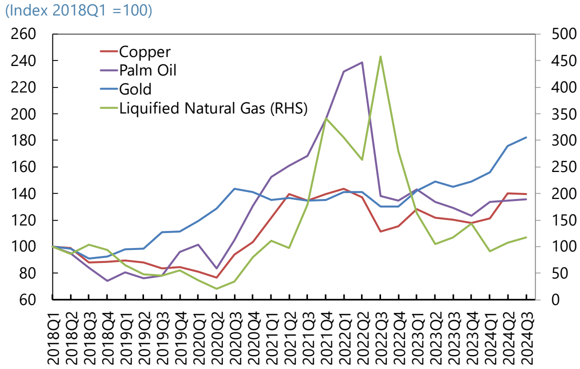
Sources: BPNG and IMF staff estimates

1/ Trimmed mean estimates published by BPNG.

Agricultural and natural gas commodity prices remain below their 2022 peaks...

Commodity Prices

(Index 2018Q1 =100)

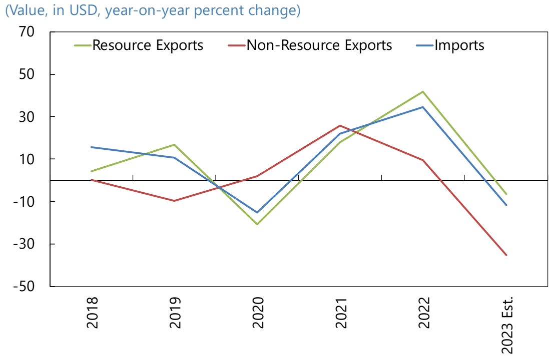


Source: IMF Primary Commodity Price System

... partly explaining weaker exports, while also imports moderated.

Exports and Imports

(Value, in USD, year-on-year percent change)

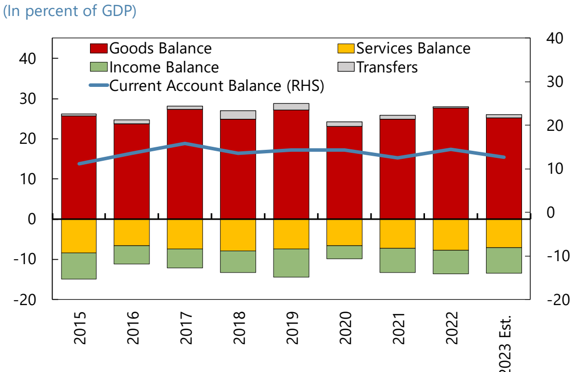


Source: IMF Staff Estimates

Current account surpluses are driven by goods balance...

Current Account

(In percent of GDP)

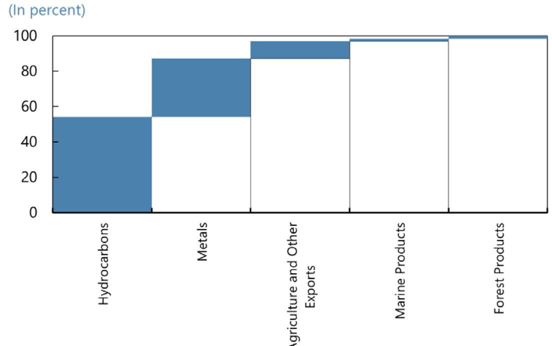


Source: BPNG, IMF Staff Calculations.

... mainly explained by exports of resource goods.

Export Product Share, 2023

(In percent)

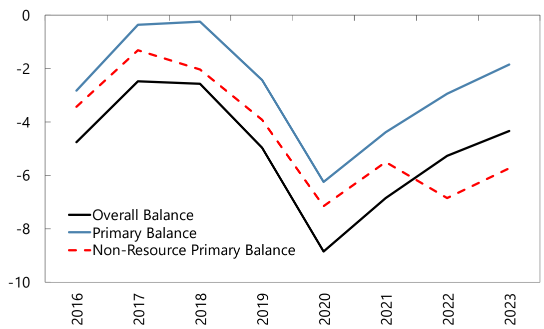


Source: BPNG

Figure 2. Papua New Guinea: Fiscal Developments

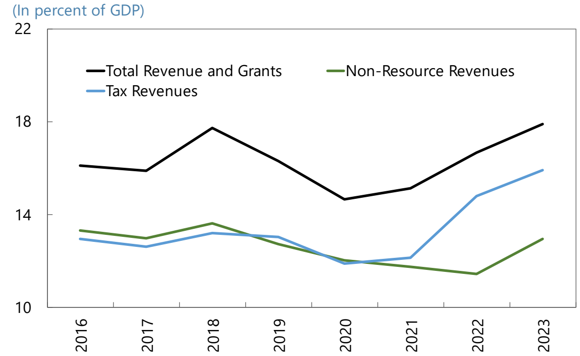
Fiscal consolidation continued in 2023…

Fiscal Balance
(In percent of GDP)



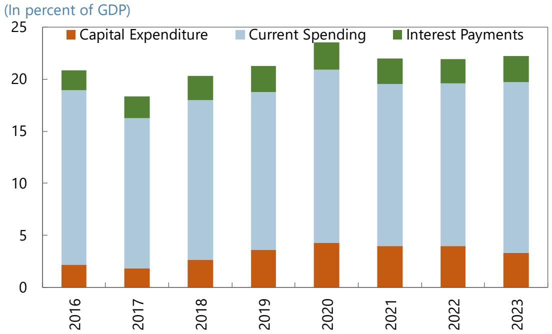
…driven by a steady performance in tax revenues.

Central Government Revenue
(In percent of GDP)



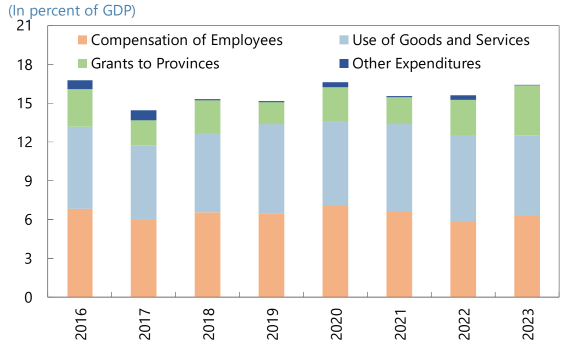
Current spending continues to take up the bulk of government spending…

Central Government Expenditure
(In percent of GDP)



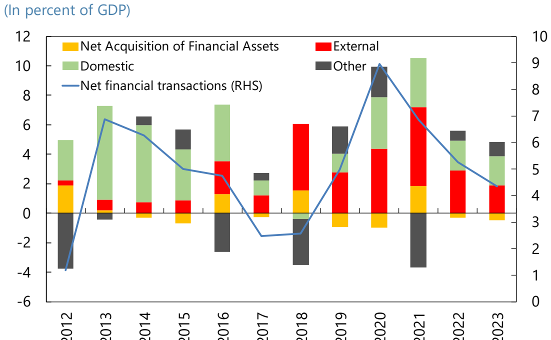
…driven by employee compensation and use of goods and services, although grants to provinces significantly increased.

Recurrent Central Government Expenditure
(In percent of GDP)



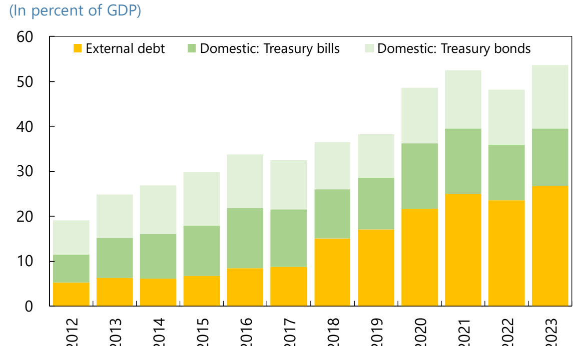
External financing sources remain significant.

Financing
(In percent of GDP)



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

Public Debt
(In percent of GDP)

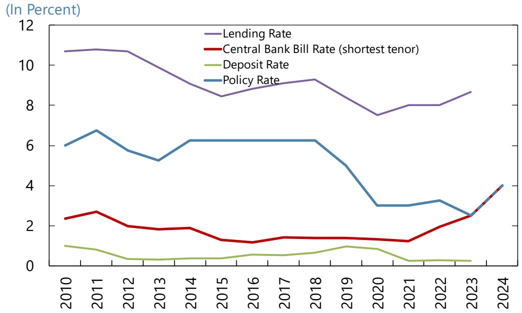


Sources: Country authorities; and IMF staff estimates and projections.

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

Despite a tightening stance in 2024, the policy rate remains lower than before the pandemic.

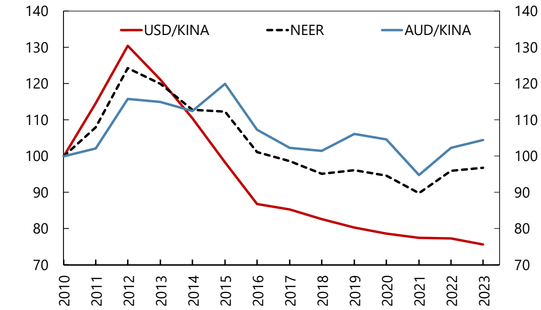
Interest Rates
(In Percent)



Note: Updated as of Dec 2023 except for Policy rate and CBB rate as of Oct 2024.
Shortest Central Bank Bill tenor was 28 days up to 2022, and 7 days from 2023.
Sources: IFS and BPNG.

The kina gradually depreciated against the US$ in 2023.

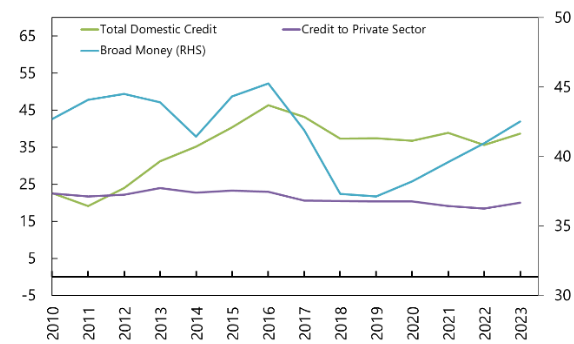
Exchange Rate
(Index; 2010=100)



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

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

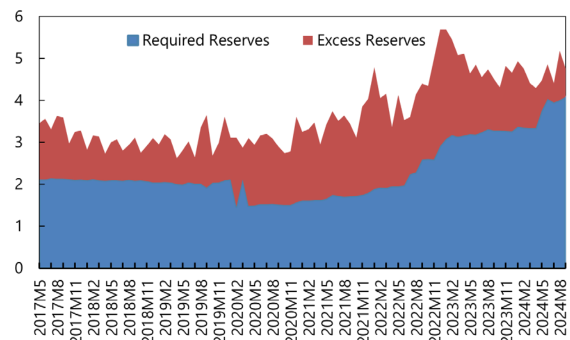
Money and Credit
(In Percent of Non-Resource GDP)



Sources: BPNG and IMF staff estimates.

The move to a fixed rate full allotment auction for central bank bills and the recent increase in reserve requirements have contributed to reducing excess liquidity in the banking system.

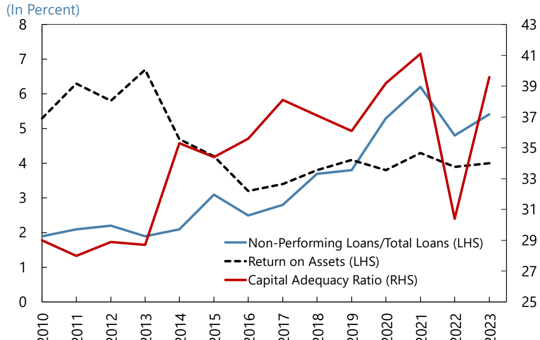
Liquidity
(Billions of Kina)



Source: BPNG.

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

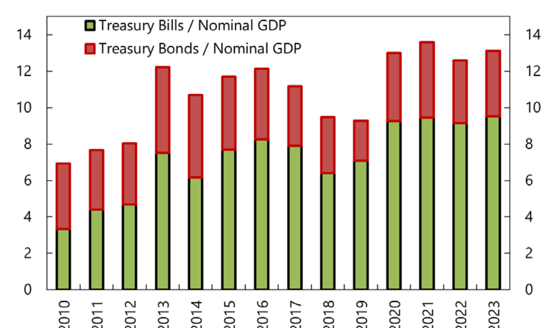
Financial Stability
(In Percent)



Sources: BPNG and IMF staff estimates.

Commercial banks holdings of government paper were broadly unchanged.

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



Sources: BPNG and IMF staff estimates.

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

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

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
		Est.	Est.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percentage change)									
Real sector										
Real GDP growth	-3.2	-0.5	5.7	3.0	4.5	4.6	3.5	3.1	3.1	3.1
Resource 2/	-9.2	-11.6	5.1	-1.6	5.0	3.8	1.5	0.1	0.2	0.2
Non-resource	-0.4	4.2	5.9	4.7	4.4	4.8	4.2	4.1	4.1	4.0
Mining and quarrying (percent of GDP)	10.2	8.2	8.2	8.5	10.2	11.8	12.2	12.1	11.8	11.6
Oil and gas extraction (percent of GDP)	14.1	17.1	23.7	18.9	17.6	16.3	15.4	14.7	13.8	13.0
CPI (annual average)	4.9	4.5	5.3	2.3	1.3	5.1	4.3	4.3	4.3	4.5
CPI (end-period)	5.1	5.7	3.4	3.9	1.7	3.9	4.5	4.5	4.5	4.5
	(In percent of GDP)									
Central government operations										
Revenue and grants	14.7	15.1	16.6	17.9	18.7	19.3	19.6	20.0	20.4	20.6
Of which: Resource revenue	0.9	1.1	3.9	3.9	3.3	3.7	3.9	4.1	4.3	4.3
Expenditure and net lending	23.5	22.0	21.9	22.3	22.6	21.9	21.0	20.0	20.2	20.2
Net lending(+)/borrowing(-)	-8.9	-6.8	-5.3	-4.3	-3.9	-2.6	-1.3	0.0	0.3	0.4
Non-resource net lending(+)/borrowing(-)	-9.8	-8.0	-9.1	-8.2	-7.2	-6.3	-5.2	-4.0	-4.0	-3.9
	(Percentage change)									
Money and credit										
Domestic credit	2.3	15.9	1.5	14.9	13.8	2.4	1.6	2.4	8.2	2.9
Credit to the private sector	4.2	2.5	6.9	14.9	12.5	14.2	12.6	9.8	8.4	10.5
Broad money	7.0	13.4	14.7	9.9	1.7	-1.0	4.9	5.5	3.1	7.2
	(In billions of U.S. dollars)									
Balance of payments										
Exports, f.o.b.	9.1	10.8	14.6	12.9	13.5	15.1	15.8	16.3	16.8	17.4
Imports, c.i.f.	-3.6	-4.4	-5.9	-5.2	-5.0	-5.4	-5.6	-5.9	-6.2	-6.4
Current account (including grants)	3.4	3.3	4.6	3.9	3.1	3.9	3.8	3.7	3.2	3.3
(In percent of GDP)	14.4	12.6	14.4	12.7	9.8	11.8	11.1	10.2	8.8	8.6
Gross official international reserves	2.7	3.2	4.0	3.9	3.0	3.0	3.4	3.5	3.0	3.1
(In months of goods and services imports)	5.0	4.5	6.3	6.6	4.8	4.7	5.2	5.2	4.2	4.3
	(In percent of GDP)									
Government debt										
Government gross debt	48.7	52.6	48.2	53.7	53.9	52.6	50.9	48.0	45.3	42.5
External debt-to-GDP ratio (in percent) 3/	21.8	25.0	23.5	26.8	30.6	31.4	32.5	30.6	28.0	25.5
External debt-service ratio (percent of exports)	5.4	4.3	2.2	2.7	3.4	4.5	5.4	5.6	8.9	3.8
Memo Items										
US$/kina (end-period)	0.2850	0.2850	0.2840	0.2683	...	...	...	...	...	...
NEER (2005=100, fourth quarter)	90.7	91.2	100.3	101.1	...	...	...	...	...	...
REER (2005=100, fourth quarter)	122.6	125.1	135.5	134.7	...	...	...	...	...	...
Terms of trade (2010=100, end-period)	55.1	48.2	69.5	65.6	61.5	66.2	66.9	67.3	67.3	67.3
Nominal GDP (in billions of kina)	82.5	91.6	111.4	110.6	122.3	134.7	144.2	153.4	162.6	172.5
Non-resource nominal GDP (in billions of kina)	62.5	68.4	75.9	80.3	88.3	96.9	104.4	112.3	120.9	130.1

Sources: Department of Treasury; Bank of Papua New Guinea; and IMF staff estimates and projections.
1/ Based on period average exchange rate.
2/ Resource sector includes production of mineral, petroleum, and gas and directly-related activities such as mining and quarrying, but excludes indirectly-related activities such as transportation and construction.
3/ Public external debt includes external debt of the central government, the central bank, and statutory authorities.

Table 2a. Papua New Guinea: Summary Operations of the Central Government, 2020-2029
(In millions of Kina)

	2020	2021	2022	2023	2024		2025		2026	2027	2028	2029
					Prog. Second Rev.	Latest	Prog. Second Rev.	Latest	Proj.	Proj.	Proj.	Proj.
Revenue and Grants	**12,093**	**13,860**	**18,538**	**19,810**	**22,567**	**22,855**	**24,692**	**25,955**	**28,295**	**30,709**	**33,227**	**35,585**
Revenue	10,668	11,772	17,066	18,651	20,362	20,650	22,867	23,700	25,867	28,170	30,590	32,855
Taxes	9,802	11,129	16,454	17,627	18,874	19,175	21,198	21,211	23,073	25,006	27,025	28,979
Taxes on income, profits, and capital gains	5,669	6,356	11,253	11,730	12,267	12,498	13,788	13,561	14,707	15,845	16,989	18,094
of which: Personal income tax	3,517	3,468	3,652	4,150	4,399	4,399	4,850	4,729	5,164	5,592	6,028	6,494
of which: Company tax	1,554	1,690	2,757	3,032	3,605	3,647	3,927	4,002	4,285	4,557	4,831	5,125
Taxes on payroll and workforce	0	1	1	2	1	1	1	1	1	2	2	2
Taxes on goods and services	3,373	3,994	4,294	5,227	5,816	5,860	6,518	6,709	7,360	8,095	8,907	9,683
of which: GST	2,079	2,457	2,475	3,599	3,898	3,800	4,400	4,387	4,847	5,405	6,030	6,596
Taxes on international trade and transactions	760	779	906	668	790	816	890	939	1,005	1,064	1,128	1,200
Other Revenue	866	643	613	1,024	1,488	1,475	1,669	2,489	2,794	3,164	3,564	3,876
Resource revenue 1/	752	1,016	4,336	4,309	4,150	4,050	4,956	4,996	5,568	6,237	6,938	7,454
Mining and Petroleum Taxes	183	635	4,036	3,907	3,550	3,650	4,256	3,946	4,311	4,691	5,068	5,352
Mining and Petroleum and Gas Dividends	569	381	300	403	600	400	700	1,050	1,257	1,545	1,870	2,102
Non-resource revenue	9,916	10,757	12,730	14,342	16,212	16,600	17,911	18,705	20,299	21,933	23,652	25,401
Non-resource tax revenue	9,619	10,494	12,418	13,720	15,324	15,525	16,942	17,266	18,763	20,315	21,958	23,627
Grants	1,425	2,088	1,472	1,159	2,205	2,205	1,825	2,255	2,428	2,539	2,637	2,730
Expenditure	**19,398**	**20,131**	**24,390**	**24,615**	**27,378**	**27,665**	**28,208**	**29,472**	**30,232**	**30,649**	**32,795**	**34,836**
Expense	15,887	16,480	19,940	20,966	22,417	22,711	22,853	24,406	25,163	25,486	26,805	28,183
Compensation of employees	5,832	6,094	6,490	6,940	6,934	7,397	7,195	7,762	7,947	8,078	8,564	9,083
of which: Clearance of retirement arrears				196	200	200	100	100				
Use of goods and services	5,388	6,161	7,467	6,906	7,073	7,153	7,425	7,471	7,649	7,775	8,242	8,743
Interest	2,160	2,249	2,573	2,761	3,269	3,019	3,300	3,541	3,794	3,759	3,773	3,753
Grants 2/	2,190	1,915	3,018	4,290	5,033	5,034	4,691	5,512	5,644	5,736	6,081	6,450
Social benefits 3/	218	0	0	0	100	100	159	111	118	126	134	142
Other expenses	99	61	393	69	8	9	82	9	10	11	11	12
Net acquisition of non-financial assets	3,511	3,650	4,450	3,649	4,961	4,955	5,355	5,065	5,070	5,163	5,990	6,653
Gross operating balance	-3,794	-2,620	-1,402	-1,156	150	145	1,840	1,549	3,132	5,223	6,422	7,402
Net lending (+)/borrowing (-)	**-7,305**	**-6,270**	**-5,852**	**-4,805**	**-4,810**	**-4,810**	**-3,516**	**-3,516**	**-1,937**	**60**	**431**	**748**
Primary balance	-5,145	-4,021	-3,279	-2,043	-1,541	-1,791	-215	25	1,857	3,819	4,204	4,502
Non-resource net lending (+)/borrowing (-)	-8,056	-7,286	-10,188	-9,114	-8,960	-8,860	-8,472	-8,512	-7,505	-6,177	-6,507	-6,705
Non-resource primary balance	-5,896	-5,037	-7,615	-6,353	-5,692	-5,841	-5,172	-4,971	-3,711	-2,417	-2,734	-2,952
Net financial transactions 4/	**7,399**	**6,270**	**5,852**	**4,805**	**4,810**	**4,810**	**3,516**	**3,516**	**1,937**	**-60**	**-431**	**-748**
Net acquisition of financial assets	-803	1,685	-356	-541	0	0	0	0	0	0	0	0
Net incurrence of financial liabilities	6,596	7,956	5,496	4,264	4,810	4,810	3,516	3,516	1,937	-60	-431	-748
Net domestic	2,882	3,042	2,277	2,176	408	-578	-185	-30	-1,426	813	3,491	2,024
Treasury bills	1,711	1,395	493	350	196	-432	-87	-3,420	-3,154	-1,539	-772	-1,857
Treasury bonds	1,266	1,601	1,750	1,945	212	-146	-98	3,391	1,728	2,352	4,263	3,881
Net external	3,619	4,913	3,220	2,088	4,402	5,388	3,700	3,546	3,364	-873	-3,923	-2,773
Debt securities	0	0	0	0	0	0	0	0	0	0	-1,104	0
IMF SDR allocation		1,244	0									
Loans	3,619	4,913	3,220	2,088	4,402	5,388	3,700	3,546	3,364	-873	-2,818	-2,773
of which: net Fund financing	1,276	0	0	632	970	970	1,207	1,016	384	-302	-311	-321
Rapid Credit Facility	*1,276*	*0*	*0*	*0*	*0*	*0*	*-147*	*-295*	*-295*	*-302*	*-311*	*-321*
ECF/EFF program				*632*	*970*	*970*	*1,354*	*1,311*	*678*			
Extended Fund Facility				*421*	*646*	*646*	*902*	*874*	*452*			
Extended Credit Facility				*211*	*323*	*323*	*451*	*437*	*226*			
Resilience and Sustainability Facility								*582*	*897*			
Gross government debt	**40,168**	**48,173**	**53,680**	**59,358**	**64,633**	**65,898**	**68,380**	**70,784**	**73,450**	**73,644**	**73,726**	**73,329**
Domestic debt	22,216	25,258	27,534	29,710	28,616	28,486	27,596	28,441	26,617	26,656	28,212	29,269
Treasury bills	11,902	13,297	13,789	14,139	14,335	13,707	14,843	11,422	8,268	6,729	5,957	4,100
Treasury bonds	10,314	11,961	13,745	15,571	14,280	14,779	12,753	17,019	18,348	19,927	22,255	25,169
External debt	17,953	22,916	26,146	29,647	36,017	37,412	40,784	42,343	46,834	46,988	45,514	44,059
of which Debt securities	1,701	1,750	1,761	1,761	1,761	1,761	1,928	1,879	1,928	1,971	926	953
Memorandum items:												
Contingent liabilities 5/	2,431	2,431	2,431	2,381	2,381	2,381	2,331	2,331	2,281	2,231	2,181	2,131
Future unfunded superannuation liabilities	2,431	2,431	2,431	2,381	2,381	2,381	2,331	2,331	2,281	2,231	2,181	2,131
SOE borrowing	0	0	0	0	0	0	0	0	0	0	0	0

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

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

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

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

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

Table 2b. Papua New Guinea: Summary Operations of the Central Government, 2020-2029

(In percent of GDP)

	2020	2021	2022	2023	2024		2025		2026	2027	2028	2029
					Prog. Second Rev.	Latest	Prog. Second Rev.	Latest	Proj.	Proj.	Proj.	Proj.
Revenue and Grants	**14.7**	**15.1**	**16.6**	**17.9**	**18.3**	**18.7**	**18.5**	**19.3**	**19.6**	**20.0**	**20.4**	**20.6**
Revenue	12.9	12.8	15.3	16.9	16.5	16.9	17.1	17.6	17.9	18.4	18.8	19.0
Taxes	11.9	12.1	14.8	15.9	15.3	15.7	15.9	15.7	16.0	16.3	16.6	16.8
Taxes on income, profits, and capital gains	6.9	6.9	10.1	10.6	10.0	10.2	10.3	10.1	10.2	10.3	10.4	10.5
of which: Personal income tax	4.3	3.8	3.3	3.8	3.6	3.6	3.6	3.5	3.6	3.6	3.7	3.8
of which: Company tax	1.9	1.8	2.5	2.7	2.9	3.0	2.9	3.0	3.0	3.0	3.0	3.0
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
Taxes on goods and services	4.1	4.4	3.9	4.7	4.7	4.8	4.9	5.0	5.1	5.3	5.5	5.6
of which: GST	2.5	2.7	2.2	3.3	3.2	3.1	3.3	3.3	3.4	3.5	3.7	3.8
Taxes on international trade and transactions	0.9	0.8	0.8	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Other Revenue	1.0	0.7	0.5	0.9	1.2	1.2	1.2	1.8	1.9	2.1	2.2	2.2
Resource revenue 1/	0.9	1.1	3.9	3.9	3.4	3.3	3.7	3.7	3.9	4.1	4.3	4.3
Mining and Petroleum Taxes	0.2	0.7	3.6	3.5	2.9	3.0	3.2	2.9	3.0	3.1	3.1	3.1
Mining and Petroleum and Gas Dividends	0.7	0.4	0.3	0.4	0.5	0.3	0.5	0.8	0.9	1.0	1.2	1.2
Non-resource revenue	12.0	11.7	11.4	13.0	13.2	13.6	13.4	13.9	14.1	14.3	14.5	14.7
Non-resource tax revenue	11.7	11.5	11.1	12.4	12.4	12.7	12.7	12.8	13.0	13.2	13.5	13.7
(in percent of non-resource GDP)	*15.4*	*13.8*	*16.4*	*17.1*	*16.7*	*17.6*	*17.4*	*17.8*	*18.0*	*18.1*	*18.2*	*18.2*
Grants	1.7	2.3	1.3	1.0	1.8	1.8	1.4	1.7	1.7	1.7	1.6	1.6
Expenditure	**23.5**	**22.0**	**21.9**	**22.3**	**22.2**	**22.6**	**21.1**	**21.9**	**21.0**	**20.0**	**20.2**	**20.2**
Expense	19.3	18.0	17.9	19.0	18.2	18.6	17.1	18.1	17.4	16.6	16.5	16.3
Compensation of employees	7.1	6.7	5.8	6.3	5.6	6.0	5.4	5.8	5.5	5.3	5.3	5.3
of which: Clearance of retirement arrears				0.2	0.2	0.2	0.1	0.1				
Use of goods and services	6.5	6.7	6.7	6.2	5.7	5.9	5.6	5.5	5.3	5.1	5.1	5.1
Interest	2.6	2.5	2.3	2.5	2.7	2.5	2.5	2.6	2.6	2.5	2.3	2.2
Grants 2/	2.7	2.1	2.7	3.9	4.1	4.1	3.5	4.1	3.9	3.7	3.7	3.7
Social benefits 3/	0.3	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other expenses	0.1	0.1	0.4	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Net acquisition of non-financial assets	4.3	4.0	4.0	3.3	4.0	4.1	4.0	3.8	3.5	3.4	3.7	3.9
Gross operating balance	-4.6	-2.9	-1.3	-1.0	0.1	0.1	1.4	1.2	2.2	3.4	3.9	4.3
Net lending (+)/borrowing (-)	**-8.9**	**-6.8**	**-5.3**	**-4.3**	**-3.9**	**-3.9**	**-2.6**	**-2.6**	**-1.3**	**0.0**	**0.3**	**0.4**
Primary balance	-6.2	-4.4	-2.9	-1.8	-1.3	-1.5	-0.2	0.0	1.3	2.5	2.6	2.6
Non-resource net lending (+)/borrowing (-)	-9.8	-8.0	-9.1	-8.2	-7.3	-7.2	-6.3	-6.3	-5.2	-4.0	-4.0	-3.9
Non-resource primary balance	-7.1	-5.5	-6.8	-5.7	-4.6	-4.8	-3.9	-3.7	-2.6	-1.6	-1.7	-1.7
Net financial transactions 4/	**9.0**	**6.8**	**5.3**	**4.3**	**3.9**	**3.9**	**2.6**	**2.6**	**1.3**	**0.0**	**-0.3**	**-0.4**
Net acquisition of financial assets	-1.0	1.8	-0.3	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of financial liabilities	8.0	8.7	4.9	3.9	3.9	3.9	2.6	2.6	1.3	0.0	-0.3	-0.4
Domestic	3.5	3.3	2.0	2.0	0.3	-0.5	-0.1	0.0	-1.0	0.5	2.1	1.2
Treasury bills	2.1	1.5	0.4	0.3	0.2	-0.4	-0.1	-2.5	-2.2	-1.0	-0.5	-1.1
Treasury bonds	1.5	1.7	1.6	1.8	0.2	-0.1	-0.1	2.5	1.2	1.5	2.6	2.3
External	4.4	5.4	2.9	1.9	3.6	4.4	2.8	2.6	2.3	-0.6	-2.4	-1.6
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.7	0.0
IMF SDR allocation		1.4	0.0									
Loans	4.4	5.4	2.9	1.9	3.6	4.4	2.8	2.6	2.3	-0.6	-1.7	-1.6
of which net Fund financing	1.5	0.0	0.0	0.6	0.8	0.8	0.9	0.8	0.3	-0.2	-0.2	-0.2
Rapid Credit Facility	*1.5*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*-0.1*	*-0.2*	*-0.2*	*-0.2*	*-0.2*	*-0.2*
ECF/EFF program	*0.0*	*0.0*	*0.0*	*0.6*	*0.8*	*0.8*	*1.0*	*1.0*	*0.5*			
Extended Fund Facility	*0.0*	*0.0*	*0.0*	*0.4*	*0.5*	*0.5*	*0.7*	*0.6*	*0.3*			
Extended Credit Facility	*0.0*	*0.0*	*0.0*	*0.2*	*0.3*	*0.3*	*0.3*	*0.3*	*0.2*			
Resilience and Sustainability Facility								*0.4*	*0.6*			
Gross government debt	**48.7**	**52.6**	**48.2**	**53.7**	**52.5**	**53.9**	**51.1**	**52.6**	**50.9**	**48.0**	**45.3**	**42.5**
Domestic debt	26.9	27.6	24.7	26.9	23.2	23.3	20.6	21.1	18.5	17.4	17.3	17.0
Treasury bills	14.4	14.5	12.4	12.8	11.6	11.2	11.1	8.5	5.7	4.4	3.7	2.4
Treasury bonds	12.5	13.1	12.3	14.1	11.6	12.1	9.5	12.6	12.7	13.0	13.7	14.6
External debt	21.8	25.0	23.5	26.8	29.2	30.6	30.5	31.4	32.5	30.6	28.0	25.5
of which Debt securities	2.1	1.9	1.6	1.6	1.4	1.4	1.4	1.4	1.3	1.3	0.6	0.6
Memorandum items:												
Contingent liabilities 5/	2.9	2.7	2.2	2.2	1.9	1.9	1.7	1.7	1.6	1.5	1.3	1.2
Future unfunded superannuation liabilities	2.9	2.7	2.2	2.2	1.9	1.9	1.7	1.7	1.6	1.5	1.3	1.2
SOE borrowing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

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

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

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

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

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

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

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	**3,424**	**3,284**	**4,567**	**3,895**	**3,117**	**3,890**	**3,797**	**3,652**	**3,237**	**3,267**
Trade balance	5,489	6,474	8,736	7,734	8,493	9,750	10,112	10,431	10,673	10,916
Exports (f.o.b.)	9,073	10,842	14,615	12,931	13,491	15,120	15,759	16,340	16,842	17,357
Resource	7,232	8,529	12,080	11,291	11,458	12,883	13,364	13,793	14,141	14,493
Nonresource	1,840	2,313	2,535	1,640	2,033	2,237	2,395	2,547	2,701	2,864
Imports (f.o.b.)	-3,584	-4,368	-5,880	-5,197	-4,998	-5,370	-5,647	-5,909	-6,168	-6,441
Resource	-814	-870	-1,378	-1,054	-984	-1,059	-1,115	-1,168	-1,221	-1,276
Nonresource	-2,770	-3,498	-4,501	-4,143	-4,015	-4,311	-4,532	-4,741	-4,947	-5,165
Services	-1,592	-1,872	-2,441	-2,199	-1,708	-1,708	-1,708	-1,708	-1,708	-1,708
of which, identifiable RM BoP costs	0	0	0	0	0	0	0	0	0	0
Income	-744	-1,590	-1,863	-1,910	-3,940	-4,425	-4,880	-5,344	-6,001	-6,213
Current Transfers	271	272	137	270	273	273	273	273	273	273
Official	331	449	390	361	383	383	383	383	383	383
Private	-60	-178	-253	-91	-111	-111	-111	-111	-111	-111
Capital and financial account balance (+ = inflow)	**-1,513**	**-3,213**	**-4,719**	**-2,744**	**-4,533**	**-4,660**	**-3,847**	**-3,378**	**-3,645**	**-2,851**
Capital account balance	6	6	7	7	7	7	7	7	7	7
Financial account balance	1,518	3,219	4,726	2,750	4,539	4,666	3,854	3,385	3,652	2,859
Direct investment	879	1,646	1,264	253	651	637	619	596	568	533
Portfolio investment	73	33	39	25	64	64	64	64	-186	64
Other investment	567	1,540	3,423	2,472	3,824	3,965	3,171	2,725	3,270	2,261
Loans (Net)	-475	410	-641	-736	-1,168	-834	-767	238	674	647
Official 1/	-955	-204	-830	-943	-1,383	-870	-800	203	638	609
Private	481	614	189	207	216	36	34	35	36	37
Commercial banks	-16	229	814	-326	-1,156	-377	199	199	-501	299
Other private capital flows 2/	1,057	901	3,250	3,534	6,148	5,176	3,738	2,288	3,096	1,315
Net errors and omissions	-2299	146	988	-1667	0	0	0	0	0	0
Overall balance	**-387**	**217**	**836**	**-515**	**-1,416**	**-770**	**-50**	**274**	**-408**	**415**
Financing	**387**	**-217**	**-836**	**515**	**1,416**	**770**	**50**	**-274**	**408**	**-415**
Change in net reserve assets (+=fall in reserves, without RSF)	9	-217	-836	339	1,165	482	-41	-199	501	-299
RSF disbursement (identifiable RM BoP costs)	0	0	0	0	0	0	0	0	0	0
Use of IMF credit	378	0	0	176	251	287	91	-75	-93	-116
Purchases	378	0	0	176	251	322	161	0	0	0
Repurchases	0	0	0	0	0	-35	-70	-75	-93	-116
RSF disbursement (not linked to RM BoP costs)	0	0	0	0	0	105	158	0	0	0
Memorandum items:										
Current account (in percent of GDP)	14.4	12.6	14.4	12.7	9.8	11.8	11.1	10.2	8.8	8.6
Net international reserves (end-year, millions of U.S. dollars)	2,126	2,343	3,179	2,840	1,675	1,298	1,496	1,695	1,194	1,493
Net international reserves as per TMU definition (prog. monitoring)	..	..	..	3,292	2,050	1,800	2,000	2,200	1,700	2,000
Gross international reserves with RSF (end-year, millions of U.S. dollars)	2,686	3,240	4,032	3,870	2,956	2,973	3,422	3,548	2,956	3,140
In months of nonmineral sector imports	6.4	6.0	7.8	8.3	6.0	5.8	6.5	6.5	5.3	5.4
In months of imports of goods and services	5.0	4.5	6.3	6.6	4.8	4.7	5.2	5.2	4.2	4.3
Gross international reserves without RSF (end-year, millions of U.S. dollars)	2,686	3,240	4,032	3,870	2,956	2,868	3,159	3,285	2,693	2,877
Total RSF disbursements	0	0	0	0	0	105	158	0	0	0
Public external debt service-to-exports ratio 3/ (in percent)	5.4	4.3	2.2	2.7	3.4	4.5	5.4	5.6	8.9	3.8
Public external debt-GDP ratio 3/ (in percent)	21.8	25.0	23.5	26.8	30.6	31.4	32.5	30.6	28.0	25.5
Nominal GDP	23,848	26,113	31,653	30,729	31,654	33,032	34,316	35,634	36,814	37,913
Resource exports (in percent of GDP)	30	33	38	37	36	39	39	39	38	38

Sources: Bank of Papua New Guinea; and IMF staff estimates and projections.
1/ Excludes IMF.
2/ Includes money-transfer via offshore accounts.
3/ Public external debt includes external debt of the central government, the central bank, and statutory authorities.

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

	2020	2021	2022	2023	2024	2025
				Est.	Proj.	Proj.
Bank of Papua New Guinea		**(In millions of kina; end of period)**				
Net foreign assets	7,417	8,221	11,116	10,551	6,713	5,386
Foreign assets	9,424	11,369	14,197	14,425	11,848	12,338
Foreign liabilities	2,007	3,148	3,081	3,873	5,136	6,952
Net domestic assets	-1,370	-1,519	-2,437	-2,630	1,714	3,522
Domestic credit	-918	1,009	-592	238	2,000	2,748
Net credit to government	-1,003	934	-743	-93	1,929	2,676
Claims on the government	1,615	3,581	3,383	3,287	3,929	3,976
Of which: Advances and holdings of inscribed stock and securities	1,615	2,319	2,051	1,874	2,400	2,400
Loans: IMF SDR Allocation		1,260	1,330	1,412	1,529	1,576
Central government deposits	2,619	2,648	4,126	3,380	2,000	1,300
Credit to other sectors	86	75	151	332	72	72
Other items, net	-453	-2,528	-1,845	-2,868	-287	774
Of which: Central bank securities	-1,498	-3,040	-2,655	-4,254	-3,174	-3,985
Of which: IMF credit	1,330	1,293	1,233	2,101	3,452	5,325
Reserve money	6,046	6,702	8,679	7,922	8,426	8,908
Currency in circulation	2,434	2,666	2,970	3,256	3,599	3,965
Deposits of other depository corporations	3,612	4,036	5,709	4,666	4,827	4,943
Required reserves	1,575	1,794	2,910	3,267	4,006	3,975
Excess reserves	2,037	2,242	2,800	1,399	821	967
Other deposits	0	0	0	0	0	0
Depository Corporations Survey		**(In millions of kina; end of period)**				
Net foreign assets	7,831	8,678	12,038	11,780	8,070	6,881
Net domestic assets	16,049	18,409	19,023	22,370	26,665	27,504
Domestic credit	22,990	26,636	27,044	31,074	35,370	36,208
Net credit to central government	7,451	11,262	11,035	12,792	15,044	13,275
Claims on other sectors	15,539	15,374	16,009	18,282	20,326	22,933
Claims on the private sector	12,754	13,076	13,973	16,056	18,056	20,615
Other items, net	-6,941	-8,227	-8,021	-8,704	-8,704	-8,704
Broad money	23,880	27,087	31,060	34,150	34,735	34,385
Narrow money	18,916	22,107	26,032	29,863	30,620	30,434
Currency outside other depository corporations	1,890	2,152	2,363	2,657	2,551	2,449
Demand deposits	17,026	19,955	23,669	27,207	28,070	27,986
Quasi-money	4,964	4,980	5,029	4,287	4,115	3,950
Securities other than shares	0	0	0	0	0	0
			(Annual percentage change)			
Net foreign assets	2.1	10.8	38.7	-2.1	-31.5	-14.7
Net domestic assets	9.5	14.7	3.3	17.6	19.2	3.1
Net domestic credit	2.3	15.9	1.5	14.9	13.8	2.4
Of which: Private sector	4.2	2.5	6.9	14.9	12.5	14.2
Broad money	7.0	13.4	14.7	9.9	1.7	-1.0
Memorandum items:						
Reserve money (percentage change)	2.2	10.8	29.5	-8.7	6.4	5.7
Gross international reserves (in millions of U.S. dollars)	2,686	3,240	4,032	3,870	2,956	2,973
Nominal nonresource GDP/Broad money	2.6	2.5	2.4	2.4	2.5	2.8

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

Table 5. Papua New Guinea: Financial Soundness Indicators, 2018-2024 Q2
(In percent)

	2018	2019	2020	2021	2022	2023	2024Q2
Capital Adequacy							
Capital to risk-weighted assets 1/	37.1	36.1	39.2	41.1	30.4	39.6	39.6
Tier 1 capital to risk-weighted assets	29.6	28.2	31.9	32.5	21.9	29.6	32.0
Asset Quality							
Nonperforming loans to total loans	3.7	3.8	5.3	6.2	4.8	5.4	5.0
Provisions to nonperforming loans	47.0	55.8	44.2	47.3	39.6	41.1	46.5
Earnings and Profitability							
Return on assets	3.8	4.1	3.8	4.4	3.9	4.0	4.8
Return on equity	12.7	14.4	28.8	33.1	28.8	24.3	31.4
Liquidity							
Liquid assets to total assets	15.9	17.7	18.3	18.9	22.5	19.2	18.8
Loan-to-deposit ratio	71.4	71.3	65.8	59.8	55.6	55.6	57.2
Other							
Tier 1 Capital to total assets	14.5	14.0	14.9	13.5	8.5	13.3	14.3
Risk-weighted assets to total assets	49.3	50.8	48.5	43.8	38.9	44.8	44.7

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

Table 6a. Papua New Guinea: Scheduled and Proposed Disbursements and Purchases Under the ECF/EFF Arrangements[1]

I. Current Phasing (approved by the Board on March 22, 2023)

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

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

Table 6a. Papua New Guinea: Scheduled and Proposed Disbursements and Purchases Under the ECF/EFF Arrangements (concluded)[1]

II. Proposal

Availability date	Amount (SDR Million)			Percent of Quota			Conditions for disbursement/purchases
	Total	ECF	EFF	Total	ECF	EFF	
22 March 2023	65.81	21.94	43.87	25.0	8.3	16.7	Executive Board approval of the ECF/EFF arrangements.
18 September 2023	65.81	21.94	43.87	25.0	8.3	16.7	Observance of end-June 2023 performance criteria, and completion of the first review under the arrangements.
18 March 2024	94.75	31.58	63.17	36.0	12.0	24.0	Observance of end-December 2023 performance criteria, and completion of the second review under the arrangements.
18 September 2024	94.75	31.58	63.17	36.0	12.0	24.0	Observance of end-June 2024 performance criteria, and completion of the third review under the arrangements.
18 March 2025	121.07	40.36	80.71	46.0	15.3	30.7	Observance of end-December 2024 performance criteria, and completion of the fourth review under the arrangements.
18 September 2025	121.07	40.36	80.71	46.0	15.3	30.7	Observance of end-June 2025 performance criteria, and completion of the fifth review under the arrangements.
18 March 2026	60.53	20.175	40.355	23.0	7.7	15.3	Observance of end-December 2025 performance criteria, and completion of the sixth review under the arrangements.
18 September 2026	60.53	20.175	40.355	23.0	7.7	15.3	Observance of end-June 2026 performance criteria, and completion of the seventh review under the arrangements.
Total	**684.32**	**228.11**	**456.21**	**260.0**	**86.7**	**173.3**	

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

Table 6b. Papua New Guinea: Proposed Disbursements Under the RSF Arrangement[1]

Availability date 2/	Availability		Conditions for disbursement
	SDR millions	Percent of quota	
18 March 2025	19.74	7.5	Reform measure 4 implementation review
18 March 2025	19.74	7.5	Reform measure 9 implementation review
18 September 2025	19.74	7.5	Reform measure 1 implementation review
18 September 2025	19.74	7.5	Reform measure 10 implementation review
18 March 2026	19.74	7.5	Reform measure 2 implementation review
18 March 2026	19.74	7.5	Reform measure 5 implementation review
18 March 2026	19.74	7.5	Reform measure 6 implementation review
18 March 2026	19.74	7.5	Reform measure 7 implementation review
18 September 2026	19.74	7.5	Reform measure 3 implementation review
18 September 2026	19.74	7.5	Reform measure 8 implementation review
Total	**197.40**	**75.0**	

Source: IMF Staff Estimates
1/ Papua New Guinea's quota is 263.2 million SDR.
2/ Reflects earliest available date for disbursement subject to assessment by the IMF Board of implementation of a reform measure and completion of RSF review.

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

(In millions of U.S. dollars)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Total financing requirements	**-765**	**-2871**	**-4587**	**-2322**	**-3951**	**-3932**	**-3098**	**-2748**	**-2478**	**-2150**
Current account deficit	-3424	-3284	-4567	-3895	-3117	-3890	-3797	-3652	-3237	-3267
of which RSF reform costs	0	0	0	0	0	0	0	0	0	0
Public sector loan amortization	369	342	131	241	325	409	601	649	1204	763
Interest and amortization on existing IMF loans	0	0	1	6	6	32	57	56	55	55
Reserve accumulation excl. RSF (-=fall in reserves)	-9	217	836	-339	-1165	-482	41	199	-501	299
Errors and omissions	2299	-146	-988	1667	0	0	0	0	0	0
Financing sources 1/	**-2221**	**-3873**	**-5378**	**-2925**	**-4819**	**-4577**	**-3712**	**-2748**	**-2478**	**-2150**
Capital account balance	6	6	7	7	7	7	7	7	7	7
Net foreign direct investments	-879	-1646	-1264	-253	-651	-637	-619	-596	-568	-533
Net portfolio investments	-73	-33	-39	-25	-64	-64	-64	-64	186	-64
Public sector project loan disbursements	247	-456	171	762	1097	953	935	427	528	92
Other capital inflows (net)	-1522	-1744	-4253	-3415	-5207	-4835	-3971	-2522	-2632	-1652
Financing gap	**1456**	**1002**	**791**	**603**	**868**	**644**	**614**	**0**	**0**	**0**
Prospective financing	**1456**	**1002**	**791**	**603**	**868**	**644**	**614**	**0**	**0**	**0**
Bilateral budget support 2/	558	732	521	408	517	172	103	0	0	0
Multilateral budget support (excl. IMF) 2/	520	270	270	20	100	150	350	0	0	0
IMF financing	378	0	0	176	251	322	161	0	0	0
RCF	378	0	0	0	0	0	0	0	0	0
EFF	0	0	0	117	167	215	108	0	0	0
ECF	0	0	0	59	84	107	54	0	0	0
Unidentified financing	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
RSF disbursements (not linked to RM costs)	0	0	0	0	0	105	158	0	0	0
Reserve accumulation incl. RSF (-=fall in reserves)	-9	217	836	-339	-1165	-377	199	199	-501	299
Memorandum items:										
Annual IMF financing (percent of quota)	100%	0%	0%	50%	72%	92%	46%	0%	0%	0%
Cumulative IMF financing (percent of quota)	100%	100%	100%	150%	222%	334%	405%	384%	357%	318%
IMF share of financing gap (percent)	26%	0%	0%	29%	29%	50%	26%	..	..	..

Sources: Papua New Guinea authorities and Fund staff estimates.

1/ Sign convention used in this table differs from Table 3 (e.g., net foreign direct investments uses reversed signs).

2 /Includes loans and grants

Table 8. Papua New Guinea: Indicators of Capacity to Repay the IMF, 2024-2046 1/

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046
	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Fund Obligations Based on Existing Credit (millions of SDRs)																							
Principal	-	26.3	52.6	56.3	69.5	86.6	66.6	40.2	40.2	34.4	16.8	-	-	-	-	-	-	-	-	-	-	-	-
Charges and interest	20.1	19.5	19.5	19.5	19.2	18.3	17.2	16.0	14.9	13.8	13.0	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8
Fund Obligations Based on Existing and Prospective Credit (millions of SDRs)																							
Principal	-	26.3	52.6	56.3	69.5	103.8	117.7	115.6	121.7	115.8	98.3	55.8	28.0	19.7	19.7	19.7	19.7	19.7	19.7	19.7	19.7	17.8	7.9
GRA	-	-	-	3.7	14.6	42.4	65.9	76.0	76.0	72.4	61.4	33.6	10.1	-	-	-	-	-	-	-	-	-	-
PRGT	-	26.3	52.6	52.6	54.8	61.4	51.8	39.6	45.6	43.4	36.8	20.2	6.1	-	-	-	-	-	-	-	-	-	-
RSF	-	-	-	-	-	-	-	-	-	-	-	2.0	11.8	19.7	19.7	19.7	19.7	19.7	19.7	19.7	19.7	17.8	7.9
Charges and interest	20.4	25.8	35.5	39.5	39.2	38.3	36.2	33.4	30.3	27.2	24.4	22.3	21.1	20.2	19.4	18.5	17.7	16.9	16.1	15.2	14.4	13.6	13.0
Total Obligations Based on Existing and Prospective Credit																							
Millions of SDRs	20.4	52.2	88.1	95.8	108.7	142.1	153.9	149.0	151.9	143.0	122.7	78.1	49.1	39.9	39.1	38.3	37.5	36.6	35.8	35.0	34.1	31.3	20.9
Millions of U.S. dollars	27.1	69.2	117.5	128.0	145.6	190.6	206.5	199.9	203.9	191.9	164.6	104.7	65.8	53.6	52.5	51.4	50.3	49.1	48.0	46.9	45.8	42.1	28.0
Percent of exports of goods and services	0.2	0.4	0.7	0.8	0.8	1.1	1.2	1.1	1.1	1.0	0.8	0.5	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Percent of debt service	0.5	1.3	2.6	3.5	4.0	6.6	7.3	8.3	8.3	7.5	5.8	3.1	1.8	1.3	1.1	1.0	0.8	0.7	0.6	0.4	0.3	0.2	0.1
Percent of GDP	0.1	0.2	0.3	0.4	0.4	0.5	0.5	0.5	0.5	0.4	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Percent of gross international reserves	0.9	2.3	3.4	3.6	4.9	6.1	5.6	4.7	4.4	3.9	3.3	2.1	1.3	1.1	1.1	1.1	1.0	1.0	1.0	0.9	0.9	0.9	0.6
Percent of quota	7.8	19.8	33.5	36.4	41.3	54.0	58.5	56.6	57.7	54.3	46.6	29.7	18.6	15.2	14.9	14.5	14.2	13.9	13.6	13.3	13.0	11.9	7.9
Principal	-	10.0	20.0	21.4	26.4	39.4	44.7	43.9	46.2	44.0	37.3	21.2	10.6	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	6.8	3.0
GRA	-	-	-	1.4	5.6	16.1	25.1	28.9	28.9	27.5	23.3	12.8	3.8	-	-	-	-	-	-	-	-	-	-
PRGT	-	10.0	20.0	20.0	20.8	23.3	19.7	15.0	17.3	16.5	14.0	7.7	2.3	-	-	-	-	-	-	-	-	-	-
RSF	-	-	-	-	-	-	-	-	-	-	-	0.8	4.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	6.8	3.0
Outstanding Fund Credit Based on Existing and Prospective Credit																							
Millions of SDRs	584.3	879.1	1,066.0	1,009.7	940.2	836.4	718.7	603.1	481.4	365.6	267.3	211.6	183.6	163.8	144.1	124.4	104.6	84.9	65.1	45.4	25.7	7.9	-
GRA	214.1	375.5	456.2	452.6	437.9	395.5	329.6	253.5	177.5	105.1	43.7	10.1	-	-	-	-	-	-	-	-	-	-	-
PRGT	370.2	424.6	412.4	359.7	304.9	243.5	191.7	152.1	106.5	63.1	26.2	6.1	-	-	-	-	-	-	-	-	-	-	-
RSF	-	79.0	197.4	197.4	197.4	197.4	197.4	197.4	197.4	197.4	197.4	195.4	183.6	163.8	144.1	124.4	104.6	84.9	65.1	45.4	25.7	7.9	-
Millions of U.S. dollars	774	1,167	1,421	1,348	1,259	1,122	964	809	646	491	359	284	246	220	193	167	140	114	87	61	34	11	-
Percent of exports of goods and services	5.6	7.6	8.8	8.1	7.3	6.4	5.4	4.5	3.5	2.6	1.8	1.4	1.2	1.0	0.9	0.7	0.6	0.5	0.3	0.2	0.1	0.0	-
Percent of debt service	15.2	22.7	30.9	36.6	34.5	39.0	34.1	33.4	26.3	19.1	12.7	8.3	6.7	5.2	4.1	3.1	2.3	1.6	1.0	0.6	0.3	0.1	-
Percent of GDP	2.4	3.5	4.1	3.8	3.4	3.0	2.5	2.0	1.5	1.1	0.7	0.5	0.4	0.4	0.3	0.3	0.2	0.2	0.1	0.1	0.0	0.0	-
Percent of gross international reserves	26.2	39.3	41.5	38.0	42.6	35.7	26.0	19.2	13.9	9.9	7.2	5.8	5.0	4.5	4.0	3.5	2.9	2.3	1.8	1.2	0.7	0.2	-
Percent of quota	222.0	334.0	405.0	383.6	357.2	317.8	273.1	229.1	182.9	138.9	101.6	80.4	69.8	62.3	54.8	47.3	39.8	32.3	24.8	17.3	9.8	3.0	-
GRA	81.3	142.7	173.3	171.9	166.4	150.3	125.2	96.3	67.4	39.9	16.6	3.8	-	-	-	-	-	-	-	-	-	-	-
PRGT	140.7	161.3	156.7	136.7	115.8	92.5	72.8	57.8	40.5	24.0	10.0	2.3	-	-	-	-	-	-	-	-	-	-	-
RSF	-	30.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	74.3	69.8	62.3	54.8	47.3	39.8	32.3	24.8	17.3	9.8	3.0	-
Net Use of Fund Credit (millions of SDRs)																							
Disbursements and purchases	189.5	321.1	239.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Repayments and repurchases	-	26.3	52.6	56.3	69.5	103.8	117.7	115.6	121.7	115.8	98.3	55.8	28.0	19.7	19.7	19.7	19.7	19.7	19.7	19.7	19.7	17.8	7.9
Memorandum Items:																							
Exports of goods and services (millions of U.S. dollars)	13,797	15,426	16,065	16,646	17,148	17,663	17,723	17,961	18,382	18,906	19,444	19,999	20,636	21,298	21,985	22,698	23,440	24,210	25,012	25,716	26,180	26,653	27,134
Debt service (millions of U.S. dollars)	5,087	5,138	4,597	3,681	3,651	2,876	2,824	2,421	2,459	2,570	2,830	3,403	3,674	4,222	4,771	5,369	6,128	7,117	8,367	10,597	13,421	16,997	21,527
Nominal GDP (millions of U.S. dollars)	31,654	33,032	34,316	35,634	36,814	37,913	39,250	41,082	43,453	46,216	49,065	52,120	55,396	58,909	62,678	66,719	71,056	75,708	80,870	86,176	91,158	96,428	102,002
Gross International Reserves (millions of U.S. dollars)	2,956	2,973	3,422	3,548	2,956	3,140	3,716	4,214	4,645	4,979	4,952	4,884	4,894	4,893	4,849	4,833	4,869	4,944	4,943	4,942	4,914	4,886	4,858
Average exchange rate: SDR per U.S. dollars	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Quota (millions of SDRs)	263.2	263.2	263.2	263.2	263.2	263.2	263.2	263.2	263.2	263.2	263.2	263.2	263.2	263.2	263.2	263.2	263.2	263.2	263.2	263.2	263.2	263.2	263.2

Source: IMF staff calculations.

1/ PNG is in country group B regarding financial terms of RST financing for the RSF facility.

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

PPG external debt	Volume of new debt in 2024		PV of new debt in 2024 (program purposes)		PV of new debt in 2024 (including negative GEs)	
	USD million	Percent	USD million	Percent	USD million	Percent
Sources of debt financing	**1648.2**	**100**	**1422.8**	**100**	**1466.3**	**100**
Concessional debt, of which	**204.0**	**12**	**121.8**	**9**	**121.8**	**8**
Multilateral debt	204.0	12	121.8	9	121.8	8
Bilateral debt	0.0	0	0.0	0	0.0	0
Other	0.0	0	0.0	0	0.0	0
Non-concessional debt, of which	**1444.2**	**88**	**1301.0**	**91**	**1344.6**	**92**
Semi-concessional	1127.2	68	984.0	69	984.0	67
Commercial terms	317.0	19	317.0	22	360.6	25
By Creditor Type	**1648.2**	**100**	**1422.8**	**100**	**1466.3**	**100**
Multilateral	372.0	23	269.7	19	269.7	18
Bilateral - Paris Club	989.2	60	925.5	65	969.0	66
Bilateral - Non-Paris Club	188.0	11	132.7	9	132.7	9
Other	99.0	6	94.9	7	94.9	6
Uses of debt financing	**1648.2**	**100**	**1422.8**	**100**	**1466.3**	**100**
Infrastructure	1001.0	61	846.7	60	890.2	61
Social Spending	30.0	2	26.8	2	26.8	2
Budget Financing	617.2	37	549.3	39	549.3	37
Other	0.0	0.0	0.0	0.0	0.0	0.0
Memo items						
Indicative projections						
Year 2	**926.7**		**809.8**		**811.6**	
Year 3	**439.7**		**356.6**		**356.6**	

Type of New External Debt, USD million
January 1, 2024 to December 31, 2024

By the type of interest rate	
Fixed Interest Rate	392.0
Variable Interest Rate	1256.2
Unconventional Loans	0.0
By currency	
USD denominated loans	1032.0
Loans denominated in other currency	616.2

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

GE =grant element.

Table 9b. Papua New Guinea: Summary Table of Projected External Borrowing Program January 1, 2025, to December 31, 2025[1]

PPG external debt	Volume of new debt in 2025		PV of new debt in 2025 (program purposes)		PV of new debt in 2025 (including negative GEs)	
	USD million	Percent	USD million	Percent	USD million	Percent
Sources of debt financing	**926.7**	**100**	**809.8**	**100**	**811.6**	**100**
Concessional debt, of which	**0.0**	**0**	**0.0**	**0**	**0.0**	**0**
Multilateral debt	0.0	0	0.0	0	0.0	0
Bilateral debt	0.0	0	0.0	0	0.0	0
Other	0.0	0	0.0	0	0.0	0
Non-concessional debt, of which	**926.7**	**100**	**809.8**	**100**	**811.6**	**100**
Semi-concessional	860.3	93	743.4	92	743.4	92
Commercial terms	66.4	7	66.4	8	68.2	8
By Creditor Type	**926.7**	**100**	**809.8**	**100**	**811.6**	**100**
Multilateral	403.9	44	323.1	40	323.1	40
Bilateral - Paris Club	522.8	56	486.7	60	488.5	60
Bilateral - Non-Paris Club	0.0	0	0.0	0	0.0	0
Other	0.0	0	0.0	0	0.0	0
Uses of debt financing	**926.7**	**100**	**809.8**	**100**	**811.6**	**100**
Infrastructure	593.4	64	526.0	65	527.8	65
Social Spending	0.0	0	0.0	0	0.0	0
Budget Financing	333.3	36	283.8	35	283.8	35
Other	0.0	0.0	0.0	0.0	0.0	0.0
Memo items						
Indicative projections						
Year 2	**439.7**		**356.6**		**356.6**	
Year 3	**389.7**		**320.2**		**320.2**	

Type of New External Debt, USD million
January 1, 2024 to December 31, 2024

By the type of interest rate	
Fixed Interest Rate	616.4
Variable Interest Rate	310.3
Unconventional Loans	0.0
By currency	
USD denominated loans	687.9
Loans denominated in other currency	238.8

1/ Present value calculations for January 1, 2025-December 31, 2025, period.

GE =grant element.

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

	Debt Stock (end of period)			Debt Service					
	2023			2023	2024	2025	2023	2024	2025
	(In US$ million)	*(Percent total debt)*	*(Percent GDP) 5/*	*(In US$ million)*			*(Percent GDP)*		
Total	15925	100	54	5157	5087	5138	17	16	16
External	7954	50	27	484	637	947	2	2	3
Multilateral creditors 2/, 3/	4086	26	14	225	277	411	1	1	1
IMF	886	6	3	6	27	69	0	0	0
World Bank	569	4	2	31	30	49	0	0	0
ADB	2515	16	8	181	213	283	1	1	1
Other Multilaterals	116	1	0	7	8	10	0	0	0
Bilateral Creditors 2/	3296	21	11	204	312	488	1	1	1
Paris Club	2137	13	7	92	182	357	0	1	1
o/w: Australia	1713	11	6	77	169	321	0	1	1
Non-Paris Club	1159	7	4	112	129	131	0	0	0
o/w: China EXIM	1159	7	4	90	97	100	0	0	0
Bonds	500	3	2	41	42	42	0	0	0
Commercial creditors	72	0	0	14	7	7	0	0	0
Other international creditors	0	0	0	0	0	0	0	0	0
Domestic	7971	50	27	4673	4449	4191	15	14	13
Held by residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Held by non-residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
T-Bills	3794	24	13	3830	3661	3361	12	12	10
Bonds	3396	21	11	685	641	674	2	2	2
Loans	782	5	3	158	148	155	1	0	0
Memo items:									
Collateralized debt 2/, 4/	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Contingent liabilities	669	4	2	n/a	n/a	n/a	n/a	n/a	n/a
Nominal GDP	30729								

1/ As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.
2/ Some public debt may not be shown in the table due to confidentiality clauses/capacity constraints.
3/ "Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)
4/ Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.
5/ Debt ratios are constructed by converting external debt to Kina using end-period exchange rate and dividing by Kina GDP.

Table 11. Papua New Guinea: Quantitative Performance Criteria and Indicative Targets, 2024-2025

(In millions of Kina, unless otherwise specified)

	2024								2025					
	June			**September**			**December**		**March**		**June**		**September**	**December**
	Test date			Indicative target			Test date		Indicative target		Test date		Indicative target	Test date
	Approved	**Outcome**		Approved	**Outcome**		Approved	**Proposed revision**	Approved	**Proposed revision**	Approved	**Proposed revision**	**Proposed**	**Proposed**
A. Quantitative performance criteria 1/														
Fiscal deficit of the government (ceiling, cumulative from the beginning of the year)	3,014	**1,923**	met	4,132	**2,274**	met	4,810	**4,810**	1,159	**1,159**	2,203	**2,203**	3,020	3,516
Stock of net international reserves of the BPNG (floor, US$ millions)	2,350	**2,825**	met	2,200	**2,817**	met	2,050	**2,050**	1,988	**1,988**	1,925	**1,925**	1,863	1,800
BPNG's gross credit to government (ceiling)	2,400	**2,114**	met	2,400	**2,126**	met	2,400	**2,400**	2,400	**2,400**	2,400	**2,400**	2,400	2,400
B. Continuous quantitative performance criteria (ceilings) 2/														
New external payment arrears of the government (ceiling, US$ millions)	0	**0**	met	0	**0**	met	0	**0**	0	**0**	0	**0**	0	0
Present value of new external debt contracted or guaranteed by the government (ceiling, US$ millions) 3/	1,072	**0**	met	1,072	**0**	met	1,072	**1,425**	530	**810**	530	**810**	810	810
C. Indicative Targets														
Non-resource tax revenue of the government (floor, cumulative from the beginning of the year)	5,871	**6,706**	met	10,714	**10,702**	not met	14,677	**14,677**	3,268	**3,268**	6,537	**6,537**	12,173	16,676
New domestic payment arrears of the government (ceiling)	0	**0**	met	0	**0**	met	0	**0**	0	**0**	0	**0**	0	0
Social and other priority spending (floor, cumulative from the beginning of the year) 4/	1,575	**3,091**	met	2,958	**4,742**	met	4,059	**4,059**	550	**550**	1,650	**1,650**	4,008	5,500
Stock of unmet import-related FX payments in the orderbook (ceiling)	125	**0**	met	100	**0**	met	75	**75**	50	**50**	25	**25**	0	0

Sources: Papua New Guinea authorities and Fund staff estimates.

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

2/ Quantitative performance criteria listed under B. are effective continuously from program approval.

3/ Annual for 2024 and 2025.

4/ Comprises government spending on health, education and law and order (both capital and operating expenses).

Table 12. Papua New Guinea: Structural Benchmarks (May 2024—December 2025)

Measure	Rationale	Implementation Date	Status of Implementation
Budget Repair			
Introduce amendments to the Income Tax Act to the Parliament aimed at strengthening revenue mobilization, streamlining its operation and ensuring consistency with the Tax Administration Act.	To strengthen domestic revenue mobilization.	End-December 2024	In progress.
Develop an initial worksheet of output-based key performance indicators to be applied at IRC's individual, team and division levels.	To enhance revenue administration and increase IRC's organizational productivity.	End-May 2024	Met (May 2024; second reviews).
Submit to the Parliament amendments to the Internal Revenue Commission Act 2014, in consultation with the IMF, to establish a Board for IRC's oversight.	To strengthen IRC's governance.	End-December 2024	In progress.
Complete data cleansing over current payroll records in the AscenderPay IT system and produce a report on the outcome of the cleansing exercise, shared with the IMF.	To ensure integrity of payroll information and enhance payroll management.	End-August 2024	Not met (partially implemented).
Finalize the data cleansing exercise in the National Capital District (NCD) by: (i) categorizing all remaining unattached officers; (ii) correcting anomalies in employee data (demographics) for economic and administrative sectors; and (iii) listing NID registration numbers in the AscenderPay IT system for all public servants; and produce a report on the outcome of the exercise, shared with the IMF.	To ensure integrity of payroll information and enhance payroll management.	End-March 2025	Newly proposed.
Formulate a sequenced implementation plan for a Treasury Single Account (TSA).	To modernize cash management practices and reduce excess government cash in the banking system.	End-December 2025	Newly proposed.
Create an interface between the debt monitoring system (Meridian) and the IFMS to automate the transfer and reconciliation of debt information.	To strengthen expenditure controls and enhance the reliability of reporting.	End-September 2025	Newly proposed.
Governance and Operations of the BPNG			
Implement an interest rate corridor, centered around the Kina Facility Rate (KFR), and bounded by standing overnight deposit and borrowing facilities priced at ±150 bps around the KFR.	To enhance liquidity management.	End-August 2024	Met (August 2024).
Modify to extend the lagged reserve maintenance period to 4-weeks and introduce partial reserve averaging.	To enhance liquidity management.	End-August 2024	Met (August 2024).
Ensure that the access to central bank bill auctions is limited to reserve-maintaining and supervised financial institutions.	To preserve the intermediation function of reserve-maintaining financial institutions and support the development of the financial sector.	End-January 2025	Newly proposed.

Table 12. Papua New Guinea: Structural Benchmarks (concluded) **(May 2024—December 2025)**			
Complement the main 7-day CBB instrument with the issuance of a 28-day CBB every four weeks to reserve-maintaining and supervised financial institutions, in competitive auctions, with BPNG as price taker.	To enhance liquidity management and address structural excess liquidity.	End-February 2025	Newly proposed.
Develop liquidity forecasting framework and liquidity monitoring tables, allowing to prepare weekly forecasts for the Monetary Operations Committee.	To enhance liquidity monitoring and forecasting	End-July 2025	Newly proposed.
Governance and Anti-Corruption Framework			
Initiate an inter-agency working group on external sector statistics including representatives from the NSO, Treasury Department, PNG Customs Service and the BPNG.	To improve the consistency of external sector statistics with other official statistics.	End-June 2024	Met (June 2024; second reviews).
Appoint the ICAC's oversight committee, as mandated by Part XII of the ICAC law.	To ensure sound governance and independent oversight over ICAC's operations.	End-September 2024	Not met (**proposed reset deadline to end-March 2025**).
Adopt memoranda of understanding between ICAC and at least four of the following agencies involved in the fight against corruption: (i) the BPNG's Financial Analysis and Supervision Unit (FASU), (ii) the Police, (iii) the Ombudsman's Office, (iv) the Auditor General's Office; and (v) the Public Prosecutor's Office.	To facilitate collaboration and exchange of information between anti-corruption agencies.	End-December 2024	In progress.
Adopt a dividend policy at the National Executive Council applicable to all three state holding companies - Kumul Consolidated Holdings, Kumul Petroleum and Kumul Minerals.	To strengthen financial governance of state-owned enterprises and entities and improve predictability of dividend payments to the budget.	End-February 2025	Newly proposed.

Table 13. Papua New Guinea: Proposed RSF Reform Measures and Timeline for Completion

Main Pillars	Key Challenge	Reform Measure	Diagnostic Reference	Capacity Development Input	RM Expected Outcome	Target Date
1. Enhancing Disaster Risk Management (DRM) Efforts	Knowledge about climate-related hazards is fragmented and incomplete, hampering the effectiveness of DRM efforts.	**RM1.** Set up a public website providing access to existing hazard mapping data, based on a stock take of current hazard mapping systems. The agency in charge of coordinating this exercise should be formally appointed. [NDC]	CPIMA, WB1	UNDP	Information and mapping about climate-related hazards is improved, allowing to raise stronger awareness and develop more effective *ex ante* DRM policies.	September 18, 2025.
	The legal framework for DRM is outdated.	**RM2.** Submit to parliament amendments to the 1984 Disaster Management Act to update and modernize the DRM framework. Amendments will clarify roles and responsibilities in DRM, codify and develop *ex ante* DRM actions, set up a DRM structure below provincial levels and more broadly align the DRM framework with more modern international practice [NDC]	CPD	UNDP	DRM practices are appropriately codified and better aligned with international practice.	March 18, 2026.
	There is no strategic understanding of disaster risk financing, and existing modalities are insufficient to cover disaster response needs.	**RM3.** Develop, adopt, and publish a comprehensive disaster risk financing strategy aimed at improving financial resilience against disasters. [Treasury, NDC, CCDA]	CPD, CPIMA, WB1	IMF (FAD)	Disaster response needs are better covered, with a stronger strategic view of the different modalities for disaster risk financing.	September 18, 2026.
2. Integrating Climate Considerations Into Public Investment Management Processes	Resilience to climate-related natural disasters is not taken into account when new investment projects are appraised and selected for inclusion in the budget.	**RM4.** Develop a methodology for climate-related disaster risk screening and incorporate a requirement in the budget circular (starting from the draft circular for the 2026 Budget) to undertake that screening for any new proposed major capital project (i.e. above PGK 10 million), by including the assessment in the project identification documents [DNPM, Treasury and sectoral institutions]	CPIMA	IMF (FAD)	Climate resilience is more systematically taken into account as part of investment planning and budgeting.	March 18, 2025.
	Climate change is not embedded in public investment management regulations, which are also incomplete.	**RM5.** Develop and adopt Public Investment Management regulations to incorporate climate change considerations into the capital project cycle (including planning, appraisal, selection, maintenance). [DNPM, Treasury, CCDA]	CPIMA	IMF (FAD)	Climate change is formally taken into account at each step of the investment project cycle.	March 18, 2026.
	The few existing maintenance standards and methodologies do not consider climate risks.	**RM6.** Pilot the incorporation of climate change considerations in maintenance standards and costing applied to national roads. [DoWH]	CPIMA	WB, ADB	Climate change is taken into account to assess road maintenance needs and costs, paving the way for a standardized approach across sectors.	March 18, 2026.

Table 13. Papua New Guinea: Proposed RSF Reform Measures and Timeline for Completion (concluded)

3. Supporting The Development Of Green And Inclusive Finance	The taxonomy of green and inclusive finance activities is not operational and lacks concrete guidelines for implementation by financial institutions.	**RM7.** Develop and formalize supervisory guidelines to financial institutions (FIs) on mandatory regulatory reporting of FIs' exposures aligned with the Taxonomy along with implementation timelines. The guidelines will focus on all exposures related to 3 priority sectors with technical screening criteria completed by mid-2025. It will be implemented on banks representing at least 90 percent of total banking sector assets. [BPNG, GFC]	Inclusive Green Finance Policy	IFC, AFD, ADB	A supervisory guidance note on collecting and reporting climate-related loan activities along with implementation timeline will help strengthen the climate information architecture landscape.	March 18, 2026.
	There is no comprehensive database of ongoing climate projects and funding sources.	**RM8.** (i) Empower the Green Finance Center (GFC) with the authority to collect data on climate investments from other institutions (government agencies and commercial banks) through a memorandum of understanding between BPNG and Treasury. (ii) Develop a centralized national database with climate mitigation and adaptation projects in line with the updated NDC and the taxonomy . [BPNG, GFC]	Inclusive Green Finance Policy and C-PIMA	GGGI, UNCDF	The centralized database on climate projects and funding sources will improve project identification and investor confidence.	September 18, 2026.
4. Supporting mitigation policies	Fuel taxation does not take the carbon content of fuels into account.	**RM9.** Submit amendments to the Excise Tariff Act to parliament to shift the tax burden towards fuels with higher carbon content [Treasury]	CPD	IMF (FAD)	The shift of taxation towards more carbon-intensive fuels will help to incentivize more efficient fuel use.	March 18, 2025.
	The logging industry is at the source of significant forest degradation, with limited lasting benefits to local communities.	**RM10.** Carry out a comprehensive review of existing royalties, taxes, and levies in the logging sector to help identify appropriate tax policy measures to ensure a balance between mitigation objectives and the socio-economic footprint of the sector. [Treasury, IRC, Customs, PNGFA]	CPD	ADB	Implementation of the findings of this review could help discourage unsustainable logging activities and incentivize forest protection.	September 18, 2025.

Legend for diagnostic references
CPD: Climate Policy Diagnostic (2024), Fiscal Affairs Department, IMF.
CPIMA: Climate Public Investment Management Assessment (2024), Fiscal Affairs Department, IMF.
WB1: Emergency Preparedness and Response in PNG (2021), Diagnostic report, World Bank.

Annex I. Risk Assessment Matrix[1]

Sources of Risk	Relative Likelihood	Expected Impact	Staff Advice on Policy Response
Regional/Domestic Risks			
Natural disasters and extreme climate events.	**High**: PNG is highly vulnerable to natural disasters (flooding, landslides, earthquakes) and climate change (droughts & sea level rise). Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability.	**High**: Negative impact on GDP growth, export and fiscal revenues, higher inflation.	Invest in disaster risk reduction and resilience with the help of development partners. Build fiscal and external buffers for post-disaster relief effort. Implement reform measures under the proposed RSF arrangement.
Widespread social discontent and political instability.	**High**: The limited capacity of the state, a high level of social fragmentation and the anticipated socio-economic impact of ongoing reforms remain chronic sources of political instability.	**High**: Adverse impact on foreign direct investment and confidence, negatively impacting growth. This can exacerbate pre-existing inequalities, causing socio-economic hardship (unemployment, poverty).	Focus on transparent and effective communication on key policies. Implement policies to support vulnerable households for which there is a need to build fiscal buffers through fiscal consolidation.
Major natural resource projects initiated; Higher LNG revenues over the medium term.	**High**: Some major projects are being negotiated, but not yet included in the baseline.	**High**: *Upside risk.* Favorable impact on GDP, external balance, and fiscal position.	Fast-track their implementation; Build fiscal and external buffers.
Cyberthreats.	**High**: Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets), technical failures, or misuse of AI technologies trigger financial and economic	**Medium**: Can affect provision of Government service and trigger financial and economic instability or widespread disruptions in socio-economic activities	Need to invest in advanced IT security systems and train key personnel on cyber/ ransomware attacks. Invest in business recovery sites and backup for important Government services and financial sector

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

Sources of Risk	Relative Likelihood	Expected Impact	Staff Advice on Policy Response
Global Risks			
	instability. PNG had a major ransomware attack in October 2021.		
Cyberthreats.	**High**: Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets), technical failures, or misuse of AI technologies trigger financial and economic instability. PNG had a major ransomware attack in October 2021.	**Medium**: Can affect provision of Government service and trigger financial and economic instability or widespread disruptions in socio-economic activities	Need to invest in advanced IT security systems and train key personnel on cyber/ ransomware attacks. Invest in business recovery sites and backup for important Government services and financial sector
Commodity price volatility.	**High**: Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions and green transition) cause recurrent commodity price volatility, external and fiscal pressures and food insecurity in EMDEs, cross-border spillovers, and social and economic instability.	**High**: Volatility in commodity prices will have an impact on external position and fiscal balance. This leads to bouts of price and real sector volatility.	Higher resource revenue should help create fiscal space. Continue with fiscal spending to support the most vulnerable but ensure fiscal consolidation remains priority. Build buffers to prepare for lower commodity prices.
Global growth surprises (slowdown).	**Medium**: Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or a deeper-than-envisaged real estate sector contraction, with adverse spillovers through trade and financial channels, triggering sudden stops in some EMDEs.	**High:** Would lead to lower external demand and lower commodity prices; BOP would worsen.	Build buffers to support the economy and most vulnerable in the non-resource sector, as needed.

Annex II. Climate Change in PNG: Key Challenges and Reform Priorities[1]

1. This annex outlines the major challenges from climate change in PNG and identifies the key reform priorities to tackle them. Section A provides an overview of climate vulnerabilities and impacts in PNG. Then, Section B identifies major policy priorities which could help in building stronger climate resilience and tackling the challenges stemming from climate change. Finally, Section C focuses on the ongoing and planned cooperation between development partners, with the aim to support the authorities in their climate reform endeavors.

A. Climate Vulnerabilities and Impacts in PNG

2. PNG's lives, livelihoods and biodiversity are highly vulnerable to climate change and natural disasters. PNG's geographic diversity – from rugged mountains and remote forest areas to coastal regions – hosts about 7 percent of the world's biodiversity and supports a rich array of ecosystems and cultural groups which are all susceptible to be affected by climate change. 87 percent of the population live in rural areas, where livelihoods are highly sensitive to weather patterns and how they affect crop yields, given the dependence on both subsistence farming and export-oriented crops such as coffee. In addition, PNG is already prone to a wide range of weather-related natural disasters, such as flooding, cyclones, droughts and landslides; and the authorities' current institutional and financial capacity to address their consequences, either *ex ante* or *ex post*, is weak. The low level of connectivity exacerbates disaster risk, as it excludes significant parts of the population from accessing support mechanisms. Overall, PNG is significantly more vulnerable to climate change (Figure II.1) and more at risk from natural disasters (climate and non-climate related) (Figure II.2) than regional and income-level peers,[2] due to both high geophysical exposure to disasters and weak institutional coping and adaptive capacities. UNESCAP (2019) estimates current average annual economic losses to natural disasters in PNG at 1.6 percent of GDP. According to ADB (2013), the socio-economic effects of climate change, which could combine severe failures in sweet potato crops and other agricultural products and the increased economic burdens of cooling, mortality, and land depletion, could trigger a loss of up to 15 percent of PNG's annual GDP by 2100.

3. Climate change has already started to affect PNG's weather patterns and sea levels, and these effects are expected to increase over the next decades under current trends. Climate

[1] The contents of this annex build in large part upon the findings of the IMF Fiscal Affairs Department's Climate Policy Diagnostic mission, led by Mr. Suphachol Suphachalasai, and the IMF Fiscal Affairs Department's Climate Public Investment Management Assessment mission, led by Ms. Nicoletta Feruglio.

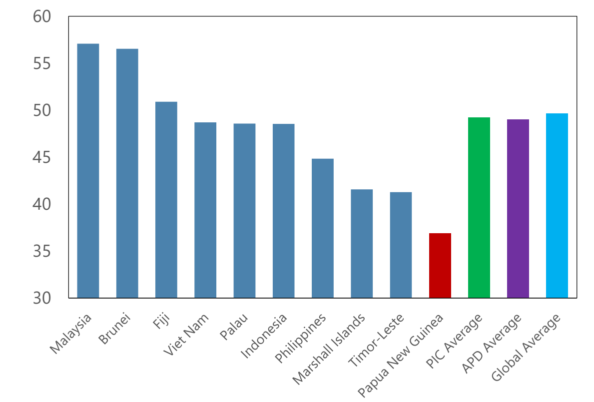
[2] Some alternative composite indicators measuring countries' vulnerability and exposure to climate change and natural disasters support similar conclusions. For instance, according to the Climate-driven INFORM Index, in 2022, PNG was the fifth country (and fourth low-income country) most at risk from climate change among APD countries and the first among Pacific Island countries, combining high vulnerability and lack of coping capacity despite a relatively lower exposure to climate-driven natural disasters. According to the overall IMF-Adapted ND-GAIN Index which combines a country's vulnerability to climate disruptions (Figure II.1) with its readiness to adapt, in 2021, PNG was the second country most at risk from climate change among APD countries.

change has already led to an increase in average annual temperature of about 0.8-0.9 ºC over the past 70 years (Figure II.3). Precipitations have not been visibly affected by climate change thus far (Figure II.4). The authorities' satellite data however reveals that sea levels near PNG have risen by approximately 7 mm per year between 1993 and 2013, which is significantly higher than the global average of 2.8 to 3.6 mm per year (PNG National Weather Services, 2015). Based on the IMF's FADCP Climate Dataset (Massetti and Tagklis, 2023), under the UNFCCC's "middle-of-the-road" climate scenario in which global CO_2 emissions stabilize at their current level and start to fall mid-century (SSP2-4.5), PNG is expected to experience an average warming of 1.5°C by 2030 and 2°C by 2050 relative to 1950 (as data is not available for the pre-industrial era), while precipitations could become more irregular and increase by 7 percent by 2030 and 14 percent by 2050 relative to 1950. In addition, under a moderate emissions scenario (RCP 4.5), IMF estimates on projections from Diaz (2016) and data from Kopp et al. (2014) show that global sea levels could further rise by 60 cm by 2100. In the case of PNG, most inundation due to this rise in sea levels would be expected to occur along the southwestern coastline. These projected increases in temperatures, rainfall and sea levels could increase the frequency and intensity of floods, droughts, storms, and landslides, amplifying in turn the costs of supporting affected populations and repairing public infrastructure.

4. Climate change is expected to create new challenges in terms of food security, access to safe water, and human health. Climate change is expected to affect crop growth processes globally, directly through modifications of weather patterns, and possible changes in water availability, pest and disease profiles and decline in arable areas. According to UNDP (2018), 70 percent of households in PNG are dependent on subsistence farming, particularly sweet potato production. World Bank (2021) suggests, based on a review of multiple studies, that sweet potato yields in PNG may decrease by 10 percent by 2050 because of changing climate conditions. In addition, a recent literature review on the effects of climate change on global coffee production (Bilen et al., 2023) indicates that due to climate change, coffee cultivation is expected to face declines in yields (particularly for arabica, which is dominant in PNG), shifts in areas of suitability for cultivation and an increase in the distribution of pests and diseases. Water resources are also at risk from climate change, as increased coastal and river flooding could degrade the quality of water due to salt contamination and could help spread water-borne diseases. All these effects could, in turn, affect health and labor productivity, with threats including increased malnutrition and higher recurrence of diseases and epidemics, adding to expected hikes in heat-related and disaster-related mortality.

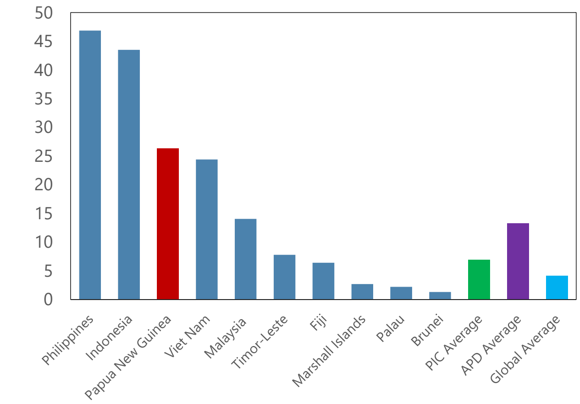
5. Climate change is also putting public and private infrastructure assets under growing risk of damage from natural disasters. PNG's coastal areas concentrate most of the service and industrial infrastructure, including for energy production and distribution, and they are particularly exposed to the increased recurrence of flooding and cyclones, which have high disruptive potential for economic activity. Key regions targeted for the development of new road infrastructure as part of the PNG Connect program are also potential hotspots for landslides. Without the appropriate building standards or upgrading, hospitals and schools could also be vulnerable to the increase in climate-related disasters, with potential lasting consequences on human capital accumulation and labor productivity.

Figure II.1. Papua New Guinea: ND-GAIN VulnerabilityIndex, 2022



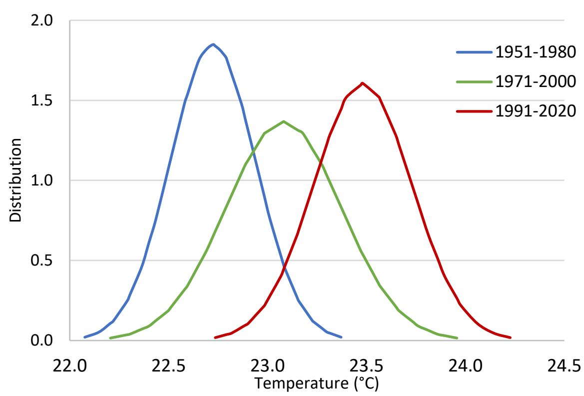
Source: Notre Dame (ND) Global Adaptation Initiative. The ND-GAIN Vulnerability Index measures a country's exposure, sensitivity and capacity to adapt to the negative effects of climate change. A lower index indicates higher vulnerability.

Figure II.2. Papua New Guinea: WorldRiskIndex 2023



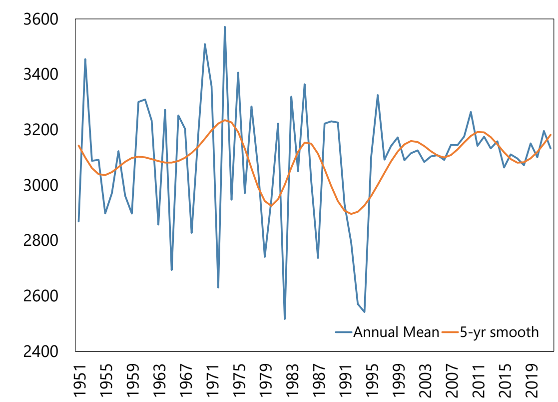
Source: Bündnis Entwicklung Hilft / IFHV (2023). The WorldRiskIndex measures a country's exposure and vulnerability to natural disasters. A higher index indicates higher exposure and vulnerability to natural disasters.

Figure II.3. Papua New Guinea: Change in Distribution of Average Mean Surface Air Temperatures (°C, 1951 – 2020)



Source: World Bank, based on data from the European Center for Medium-Range Weather Forecasts.

Figure II.4. Papua New Guinea: Average Annual Precipitations (Millimeters, 1951-2022)



Source: World Bank, based on data from Climatic Research Unit of University of East Anglia.

6. **These expected negative impacts are adding to the existing development and inclusive growth challenges faced by PNG.** According to World Bank data, 3 million people were estimated to be in a situation of extreme poverty in 2019, and access to electricity (19 percent of the population) and to basic drinking water services (50 percent of the population) were the lowest in the Asia-Pacific region in 2022; the consequences of climate change could contribute to worsening these indicators. Inequalities are also very high in PNG, and literature suggests that this can contribute to diminishing resilience to disasters (Tselios and Tompkins, 2019). In addition, the effects of climate change are not gender-neutral in general and women and children are among the highest risk groups (World Bank, 2016). Overall, climate change could stall progress in the implementation of the authorities' long-term and medium-term development objectives, including those in PNG Vision 2050 and in the 2023-2027 Medium-Term Development Plan.

7. PNG's global greenhouse gases (GHG) emissions are relatively small but on the rise, due to forest degradation and to the reliance on high-carbon energy sources. At 43.1 MtCO2e in 2022, PNG's global GHG emissions represented less than 0.01 percent of global emissions. However, PNG's GHG emissions per capita rank high relative to other small island developing states (Figure II.5). The agriculture, forestry and other land use sector accounts for three quarters of PNG's GHG emissions. PNG hosts the third largest rainforest in the world; these forest resources have contributed to PNG being a net carbon sink until the early 2010s. Commercial logging in PNG has however led to large-scale forest degradation, resulting in a gradual yet significant reduction in the country's carbon sink capacity.[3] Energy- and industry-related emissions account for about 20 percent of GHG emissions. More than 90 percent of the nation's energy production relies on fossil fuels, primarily heavy fuel oil, and that biomass (burning wood) is commonly used to fuel domestic cooking fires. The production of liquefied natural gas (LNG) also relies on less advanced and efficient processing and liquefaction techniques than in more developed regions.

8. PNG also faces large adaptation costs, while its adaptive capacity is one of the lowest in the Asia-Pacific region. Annual public adaptation costs needed in PNG by 2030 to upgrade and retrofit existing infrastructure and to launch new investments for coastal protection are estimated by the IMF at least 2 percent of GDP (IMF, 2021). Only a small part of these adaptation needs has been effectively met so far, due to lack of sufficient fiscal space, challenges in mobilizing climate finance, and limited institutional capacity to effectively implement an adaptation strategy. PNG's adaptive capacities, referring to its ability to implement processes and strategies aimed at counteracting, mitigating or preventing future negative impacts of natural disasters, are limited in PNG and among the lowest in the Asia-Pacific region (Figure II.6).[4]

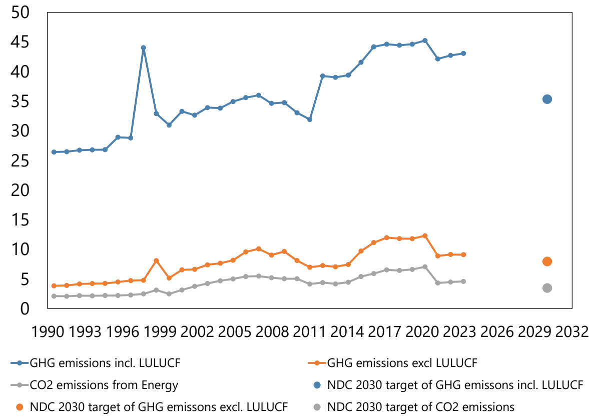
B. Objectives, Strategies and Policies to Address Climate Change

9. The Government of PNG has made ambitious international climate commitments. PNG ratified the Paris Agreement in 2016, demonstrating its commitment to international climate goals. The PNG authorities submitted their Enhanced Nationally Determined Contribution (NDC) in 2020, expanding from the 2015 NDC's initial focus on adaptation to include mitigation, capacity building, and financing. The Government targets a reduction in emissions of 50 percent by 2030 relative to the 2015 baseline, conditional on financial support from development partners. The country's GHG emission reduction plan relies on a rough estimate of forest's carbon absorption with most of the anticipated carbon reduction expected to come from maintaining and enhancing forest carbon stocks. The authorities also target carbon neutrality in the energy sector by 2030, and an increase in renewable energy capacity from 30 to 78 percent of the energy mix by 2030.

[3] The authorities estimate in their Enhanced NDC (2020) that in 2015, the carbon removal capacity from forest resources was about 23.4 MtCO2e lower than in 2000.

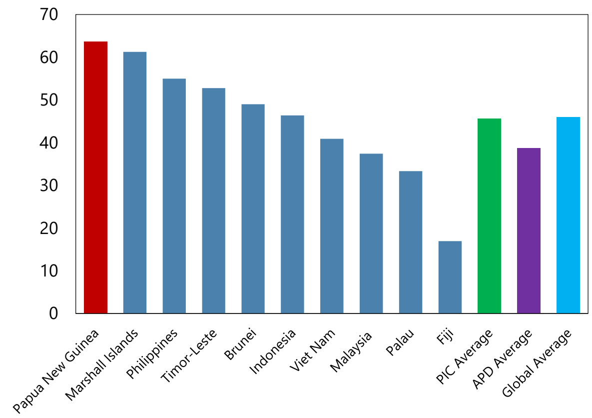
[4] Some alternative indicators show similar conclusions. According to the IMF-Adapted ND-GAIN Readiness score (2021), PNG is the second country with the highest shortcomings in terms of readiness to adapt to climate change among APD countries. According to the EU's Climate-driven INFORM index (2022), PNG has the lowest capacity to cope the effects of climate change among APD countries.

Figure II.5. Papua New Guinea: Reported GHG Emissions ($MtCO_2e$, 1990-2022)



Sources: UNFCCC, EDGAR, FAO, IMF staff calculations.

Figure II.6. Papua New Guinea: Lack of Adaptive Capacities to Natural Disasters (WorldRiskIndex 2023)



Source: Bündnis Entwicklung Hilft / IFHV (2023). Adaptive capacities refer to long-term processes and strategies to achieve anticipatory changes in societal structures and systems to counteract, mitigate, or prevent future negative impacts of natural disasters. A higher index indicates larger deficiencies in adaptive capacities.

10. PNG has also developed a comprehensive policy framework aimed at mitigating and adapting to climate change. PNG adopted the Climate Change Management Act (CCMA) in 2015 (amended in 2021 and 2023), establishing a legal and institutional framework for climate action; this led to the creation of the Climate Change Development Agency (CCDA) and the National Climate Change Board (NCCB) to coordinate climate change related policies and actions. Climate change features as a major policy area in PNG's development and sectoral strategies, including: PNG Vision 2050, which emphasizes inclusive and sustainable growth as part of the country's long-term strategic goals; the MTDP IV, which recognizes the importance of implementing climate actions to achieve low-carbon and climate-resilient development as well as the need for effective disaster risk management; and several notable sectoral plans and strategies, particularly in the road and energy sectors. This was further reinforced by the country's National Climate Compatible Development Management Policy, which outlines strategies for reducing emissions and enhancing resilience. PNG also developed a National Adaptation Plan (NAP) in 2023, which focuses on building resilience in key sectors such as agriculture, water, and infrastructure. As part of its participation in the Reducing Emissions from Deforestation and Forest Degradation (REDD+) program, PNG's REDD+ strategy outlines actions to reduce emissions from deforestation and forest degradation while enhancing forest carbon stocks. Overall, however, despite this extensive policy framework, PNG faces substantial challenges in effectively achieving its NDC goals due to financial constraints, technical capacity limitations, and lack of climate awareness.

Adaptation Policies

11. PNG has made substantial progress in building legal, institutional and policy foundations for the country's adaptation priorities. The NAP identifies the country's quantitative adaptation targets to be achieved by 2030, including 10 percent of population with increased resilience with respect to food, water security, health and wellbeing, and 100 percent of population benefitting from improved health measures to respond to malaria and other climate-sensitive diseases. Since its 2021 amendment, all sectors identified as "regulated" in the 2015 CCMA are required to develop sectoral adaptation plans, although this has not been effectively completed yet.

12. Climate resilience in the water sector will require significant coordination efforts and capacity building in hydrological monitoring and water resource planning. Insufficient investment and maintenance of the water infrastructure have left 40 percent of the population without access to safe drinking water, both in urban and rural areas. The MTDP IV estimates that K195 million is necessary to extend safe drinking water access to 70 percent of the population and improve sanitation to 60 percent by 2027. But climate change could lead to further pressures on access to clean water, in relation with increased coastal flooding and with disruptions in precipitation patterns. In the urban area, the ability of Water PNG – the state-owned water utility company – to upgrade and maintain its aging infrastructure assets has been hampered by financial losses in the majority of the provinces and by significant shares of physical and commercial losses in the distribution. In the rural areas, water supply suffers from significant under-investment, due to lack of prioritization and to the absence of frameworks for local service planning and investment. Efforts are ongoing, with World Bank support, to reinforce ward-level planning and to develop guidance on how to mainstream climate change in the rural water supply sector.

13. Climate resilience of agriculture is among the top adaptation priorities for PNG, but actions are only nascent. The NAP calls for a series of policy actions to facilitate climate smart agriculture and climate resilient infrastructure access for agricultural sector. In the area of climate smart agriculture, NAP prioritizes activities such as R&D on resilient crop varieties, promotion of indigenous coping mechanisms, seed banks, and livelihood diversification. The development of a climate smart agricultural policy is currently ongoing. Some initiatives have commenced, with the support of development partners to promote climate-smart practices in cocoa, vanilla and aquaculture production. The NAP also includes priority actions to strengthen financial inclusion in the agricultural sector, including through the establishment of farmer cooperatives and microcredit facilities, and the development of agricultural risk insurance. Efforts are ongoing by the Green Finance Center (see ¶30) to assess technical needs for the expansion of green finance in the agricultural sector.

Disaster Risk Management and Financing

14. PNG has established legal, institutional and strategic bases for disaster risk management (DRM), but updates are long overdue. The mandates of PNG's DRM institutions are codified in the Disaster Management Act (DMA) 1984, which established the National and Provincial Disaster Committees as the main executive bodies, along with National Disaster Center (NDC) for operational coordination. As a 40-year-old law, the DMA has several limitations, lacking for example clarity on the roles and responsibilities of DRM actors, on institutional DRM structure at the local level, and on a framework for ex ante DRM actions. In the meantime, PNG has developed a number of strategic DRM policy documents, including the National Disaster Risk Reduction Framework

(NDRRF) 2017-2030, the National Disaster Risk Management Plan (NDRMP) 2012, and several others which are all due for update. The NAP also includes DRM-related objectives, such as a target of 6 million people that should benefit from improved early warning systems by 2030.

15. Some *ex-ante* DRM approaches have been established on paper, but few in practice. The National Disaster Center has prepared national and provincial contingency plans, as have several SOEs such as PNG Power and Water PNG in their respective sectors. The national end-to-end early warning system (EWS), as initially envisioned in the NDRMP, [5] has however not been established yet in practice; the NAP ranks this as a key priority. Staff and technical capacities to develop such functions and to monitor major hazards, such as landslides and droughts, are particularly limited. Efforts to develop planning, coordination and learning-by-doing of all relevant stakeholders will be needed in the coming years. Given the remoteness of many vulnerable areas, PNG should also prioritize enhancing effective last-mile delivery, through options relying on low-cost technology and/or wider civil society engagement.

16. Climate-related risk analysis is only nascent, and information on climate hazards is partial. The CCDA is conducting climate change and vulnerability assessments in a handful of provinces, but overall, analysis remains very limited in all government agencies. The government does not conduct a fiscal risk analysis that incorporates climate-related risks, including to public infrastructure assets. Risk assessment efforts are not coordinated across agencies, with a potential for duplication given the growing need for such risk assessments in areas such as DRM, climate adaptation, or infrastructure investment. In addition, information on natural hazards is fragmented and incomplete, and cannot be easily accessed by all DRM stakeholders, thus hampering the emergence of effective *ex ante* and *ex post* DRM actions, particularly for infrastructure planning. This calls for efforts to collate information and assess the opportunity of developing a single framework for the mapping and analysis of climate hazards.

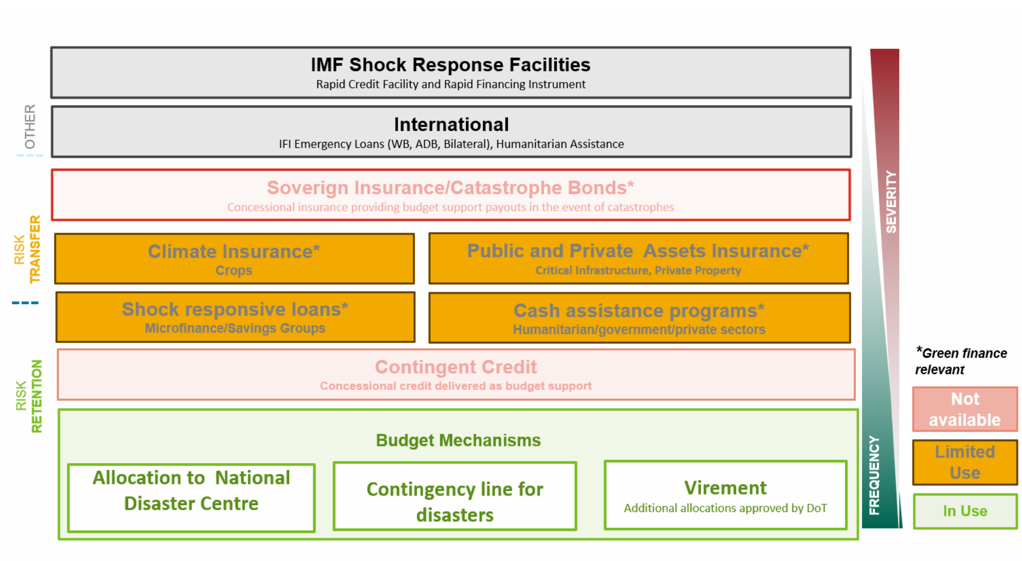
17. The lack of predictable budgetary provision and operational delays significantly impede DRM implementation. The DMA 1984 contains limited provisions regarding public financing for disaster relief, including the procedure for financial assistance requests by Provincial Disaster Committees and cost-sharing arrangement between provincial and national governments. Budget allocations to national and provincial DRM institutions are usually small, and largely used for staffing purposes, leaving little for operational disaster response. The 2016 Appropriation Act allows for virements from the Treasury (Section 207) for any activity under operational and capital expenditure when current funding is not sufficient due to unforeseen circumstances. While this contingency fund was appropriated K130-150 million every year for the past three years, there is no report on actual spending. Unlocking these resources in case of an emergency may however take time: requests for budget virements from the NDC to the Treasury may require one week for

[5] A general framework for the national end-to-end EWS has been defined in the NDRMP, identifying key agencies, setting roles and responsibilities, and listing a number of standardized sub-plans that would guide inter-agency operations. These subplans include an emergency warning plan – which standardize warning messages to sub-national and private sectors; a communication plan; a relief plan which defines damage assessment and humanitarian-government coordination; and an early recovery plan, which defines steps link emergency response and long-term recovery.

approval, and procurement procedures for emergency response goods and services may also take an additional week.[6] Overall, budget resources are widely insufficient to cover needs.[7]

18. PNG currently lacks a strategic understanding regarding alternative ex-ante and ex-post options to strengthen financial resilience against disaster risk, calling for a comprehensive disaster risk financing strategy. Beyond the existing budget allocations and virement options listed above, the only *ex ante* disaster risk financing option that PNG has taken is a parametric earthquake insurance against submarine communication cables offered by the Pacific Catastrophe Risk Insurance Company (Figure II.7). The PNG government, working with development partners, is beginning to evaluate mechanisms such as post-disaster cash transfer and anticipatory actions, as well as the use of micro-finance and climate insurance. Yet, the government lacks an overarching strategic view as to how these alternative public, private and civil society-led channels may be fostered to strengthen the country's financial resilience; and awareness remains limited across government, including on more common options like pre-arranged procurement for post-disaster budget execution.

Figure II.7. Papua New Guinea: Current Disaster Risk Financing Instruments in PNG



Source: IMF staff analysis.

[6] The Public Finance Management Act 1995 grants the Minister of Finance the discretion to waive public tendering requirements in case of a disaster for an individual transaction below K500,000. These emergency procedures are however rarely used.

[7] The landslide in the Enga province in May 2024, which affected over 4,000 people, caused hundreds of fatalities and led to damages possibly exceeding US$ xxx. In comparison, the disaster response expense for the 15 disasters recorded over the first six months of 2024 (including the Enga landslide) reached about K64 million (about US$ 16 million), including K30 million through the Prime Minister, K20 million from the Ok Tedi mining consortium and K14 million of budget virements channeled through the National Disaster Center.

Climate-Sensitive Public Investment Management

19. Incorporating climate considerations in the management of public investment projects, from planning to implementation, is critical to the effectiveness of PNG's climate policies. As part of the NAP, the authorities target US$1.2 billion of transport infrastructure built/rehabilitated to climate-resilient codes and standards by 2030, and US$127 million of building and utility infrastructure assets built and rehabilitated to climate-resilient codes and standards. This requires an ability to take climate change impacts and risks into the planning, design, appraisal, selection and implementation of infrastructure projects.

20. Climate-sensitive public investment management practices are only at an early stage in PNG, based on the findings of FAD's recent Climate Public Investment Management Assessment (CPIMA). Despite a relatively comprehensive climate change policy framework (see ¶10), the framework has not yet informed national and sectoral climate-sensitive investment planning. Building codes and land-use planning do not promote green and resilient infrastructure. Interdepartmental coordination is weak, with no institution clearly in the lead for adaptation or mitigation-related investments. Project appraisals do not integrate climate change while project selection is not formalized. The regulatory and oversight framework for SOEs does not promote consistency between their climate-related investments and national climate policies even though SOEs are an important driver of public investment. The requirements for *ex post* project reviews do not incorporate climate outcomes of projects. Except for a couple of sectors, there is a lack of formal methodologies to estimate asset maintenance requirements generally and these have yet to be informed by the impacts of climate change.

21. The authorities should prioritize their reform efforts in a handful of strategic areas to better integrate climate change considerations into infrastructure governance. Core areas include: (i) ensuring that climate change is integrated in national and sectoral investment strategies and improving knowledge sharing on existing hazard mapping systems; (ii) making disaster risk screening and climate risk assessments more systematic at the appraisal phase in order to support a more climate-informed project selection; (iii) further developing climate-sensitive maintenance standards and costing methodologies and better identifying routine and capital maintenance appropriations in the budget; (iv) ensuring the alignment of SOE investment plans with climate objectives; and (v) strengthening the overarching legal and regulatory framework and staff capacity to support effective climate-sensitive public investment management reforms.

Green and Inclusive Finance

22. Improving donor confidence to attract climate financing excess of US$ 1 billion over a 10-year period to achieve PNG's enhanced NDC targets requires a stronger climate information architecture and upgrades to policies and coordination. The overall commercial market for green investments in PNG remains shallow, with limited awareness among domestic stakeholders. The capacity to identify the amount of existing mitigation and adaptation investments also remain limited due to data constraints. None of the banks in PNG currently offer loan products targeting any environmental efforts including for investing in energy efficient machinery and equipment. As the recent C-PIMA highlighted, attracting climate finance will also require significant strengthening of inter-departmental coordination in PNG as currently no institution is leading either adaptation or mitigation related investments. Moreover, important climate related policy prerequisites that are needed to catalyze climate finance such as revisions to renewable energy licensing policy (off-grid), energy efficiency directive, energy efficiency labeling, and the building code are yet to be implemented.

23. In June 2023, the Prime Minister launched the Inclusive Green Finance Policy project, a strategic effort spearheaded by the BPNG, with the goal to support PNG's financial sector transition towards a more inclusive, sustainable, and resilient sector. As the main deliverable of this project, the authorities completed the first stage of their Green and Inclusive Taxonomy with technical assistance from development partners. The development of the taxonomy was guided by six objectives: 1) mitigation; 2) adaptation and resilience; 3) sustainable use and protection of water and marine resources; 4) pollution prevention and control; 5) conservation and resource efficiency; and 6) protection and recovery of biodiversity and ecosystems. The authorities are currently receiving further technical assistance from the International Finance Corporation (IFC) to complete the taxonomy's technical screening criteria. As secondary deliverables of the Inclusive Green Finance Policy project, the authorities published a diagnostic report on the state of climate finance in PNG and outlined an ambitious roadmap to implement Inclusive Green Finance Policies. Once the taxonomy development stage is successfully completed, BPNG should provide formal guidance to financial institutions on regulatory reporting of green lending activities in line with the taxonomy along with implementation timelines. This will require significant assistance from development partners to train staff at BPNG and financial institutions, changes to financial institutions' information systems, as well as policies and compliance procedures.

24. The Green Finance Center (GFC) was launched in 2024 to spearhead inclusive and green finance initiatives. It aims to be the core knowledge and data center for the green finance ecosystem, and to serve as a forum for public-private dialogues on green finance. Currently, there is no central database of climate mitigation or adaptation projects maintained either by the GFC or any other agency. Moreover, policies and strategies provide little quantifiable guidance on specific activities and plans. Even donor-funded climate projects require extensive time and effort to discover across websites or press releases. A centralized database of climate mitigation and adaptation projects in line with the updated NDC and the taxonomy could help improve cross-departmental coordination and spur investor confidence. For instance, this database could collect data on funding provided to government agencies for climate investment projects by development partners as well as collect data on green loan activities of PNG banks in line with the taxonomy (e.g., bank loans provided for an EV-related infrastructure project in the transportation sector). The effectiveness of this database will rely on the strength to coordination between institutions in the green finance ecosystem and therefore a formal coordination mechanism is warranted. The responsibility for public investment cuts across the mandates of many departments and agencies including CCDA, DNPM, DoT and DoF. Currently, there is no centrally led cross-government planning process through which climate-relevant investment decisions could be coordinated. With this regard, the GFC—in line with its objectives— could collect data on climate investments from other institutions with proper authority granted to it by a memorandum of understanding between the BPNG and the Treasury, and perform quality controls once it sets up the database.

Mitigation Policies - Forestry

25. **Forest degradation and deforestation have notably increased, becoming the primary sources of carbon emissions.** The main cause of forest degradation is commercial logging, which accounts for 46 percent of the damage and disruption to forests. According to the authorities, between 2000 and 2018, human activities disturbed 8.88 million hectares of forest, with an annual average disturbance of 150 thousand hectares. Similarly, the rate of deforestation is accelerating: approximately 100 thousand hectares were cleared over a decade (2000-2010), 150 thousand hectares over the next five years (2010-2015), and another 100 thousand hectares within just three years (2015-2018). The primary forces behind deforestation include shifting cultivation practices and the development of oil palm plantations. In terms of emissions, however, the impact of forest degradation is almost five times higher than deforestation; direct emissions from agriculture are negligible compared with those resulting from logging.

26. **The authorities have established a strong regulatory and strategic planning framework for the forestry sector.** The Forestry Act of 1991 is the main legal instrument governing the forestry sector. It established the National Forest Authority (NFA) as the main body responsible for monitoring and controlling the wood and forest-based industries and the management of PNG's forest resources. The Act is complemented by various forest management guidelines, including the National Forest Plan and Provincial Forest Plans. For the Agriculture, Forestry and Other Land Use (AFOLU) sector, PNG's Enhanced NDC sets quantitative targets, both GHG-related (10 $MtCO_2e$ reduction in emissions from 2015 levels) and non-GHG related (reduction of 25 percent each of areas of annual deforestation and forest degradation relative to 2015 levels), complemented by multiple action-based targets for the sector and further specified in the NDC implementation plan (2021-2030) and in the AFOLU mitigation plan (2022-2025). The authorities also aim to end unprocessed log exports by end-2025, supported by a transition to downstream processing in the sector.

27. **The effectiveness of forest protection could be enhanced by the implementation of carbon levies and incentives, and by improving the consistency of objectives across sectors.** The potential for further forest degradation and deforestation remains high, given that almost a quarter of all forest land is under active timber concessions, and that the NFA has limited resources to track reforestation efforts. Existing timber licensing frameworks (such as the Special Agricultural Business Leases) may not provide sufficient safeguards and incentives to effectively preserve forest resources. Forest protection can also conflict with other sectoral objectives, calling for reconciliation efforts – for instance, the MTDP IV concurrently aims to increase agricultural land by 200,000 hectares between 2023 and 2027, a goal likely to lead to the clearing of forest areas and thus, hasten deforestation. Going forward, internalizing environmental costs will be required to slow down forest degradation and deforestation; this calls for a review of the current system of forest royalties, charges and levies and the identification of measures to improve collection and equitable distribution of benefits between landowners, industry participants, the NFA and the Ministry for

Finance. Consideration could also be given to a Payment for Environmental Services scheme to help incentivize forest conservation, although it would require careful land use planning and additional financing.

Mitigation Policies – Energy and Electricity

28. The energy sector is the second largest source of emissions in PNG, with energy consumption set to surge. According to IMF calculations, the energy sector contributes approximately a fifth of the country's total emissions. A large portion of PNG's transportation and grid is reliant on liquid fuels with high carbon contents, which are far more expensive than alternatives. For instance, in agricultural applications, diesel generators are about 150% more expensive than those powered by biomass and 50% costlier than solar-storage combinations. Furthermore, as a country with one of the lowest electrification rates in Asia and the Pacific, PNG's energy demand is expected to grow rapidly. In its Enhanced NDC, the government is committed to reaching 70 percent electricity access by 2030 while achieving a headline target of carbon neutrality within the energy industries, including enhancing renewables in the energy mix (see ¶9). The Energy Mitigation Plan (2022-2025), complemented by the Implementation Roadmap for the electricity sector, established a list of planned and proposed investment projects for the energy sector.

29. On- and off-grid expansion and a new framework for tariff setting are needed to help meet the growing electricity demand while reducing GHG emissions. In PNG, electricity generation is currently primarily reliant on hydropower and diesel, with the latter being notably less efficient and more polluting. According to IMF FAD staff estimates, adding at least 470 MW of renewable electricity projects to the grid would lower generation costs and reduce GHG emissions. This will require further investment for on-grid expansion, drawing from the list of priority projects established by the authorities (see ¶14). PNG Power Limited (PPL) – the state-owned utility company – has a critical role to play in that respect, but PPL has been facing a worsening financial situation, due to the combined effects of electricity tariffs below cost recovery, high generation costs, and high rates of technical and non-technical leakages, largely due to limited maintenance efforts and weak control capacity. Electricity tariffs have been frozen for over a decade, limiting PPL's ability to invest in new projects and upgrade and maintain existing infrastructure. This calls for a clear and transparent framework for electricity tariff setting and review, so as to ensure cost recovery for PPL, combined with measures protecting low-income households. Lastly, off-grid expansion will also be essential for reaching electrification goals, given the dispersion of the population in remote areas and the ruggedness of the terrain.[8] Yet, PNG does not have a regulatory framework for off-grid projects, putting potential investors into an uncertain environment and hindering project development.

30. PNG's reliance on high-carbon production and exports calls for a transition to renewables. High-carbon exports (mineral fuels, logging) represent about over 80 percent of total exports, with LNG export income alone amounts to 5 percent of GDP. This dependence on high-

[8] The authorities estimate that about a quarter of the population will need to be served by off-grid generation in order to reach the NDC objective.

carbon exports leaves PNG vulnerable to balance of payment fluctuations and could threaten fiscal stability in the medium to long-run as importers pursue low-carbon strategies. To mitigate those risks and transition towards a more sustainable energy future, PNG should adopt cleaner technologies for LNG and mining production to improve the efficiency of production and avoid flaring, further integrate climate considerations in the corporate and financial governance of resource SOEs, accelerate the greening of the economy and consider prospects for economic diversification, especially in the non-resource sector.

Enabling Institutions

31. PNG has established a robust legal foundation to address climate change, but there are a number of gaps which undermine the effectiveness of climate policies. The CCMA 2015 sets out the regulatory framework for PNG to a) promote and manage climate-compatible development through climate change mitigation and adaptation activities; b) establish the CCDA and the NCCB, and c) set up administrative procedures related to funding arrangements, measurement reporting and verification and benefit sharing. Subsequent amendments in 2021 and 2023 helped set a framework for the introduction of carbon levies, reinforce sectoral adaptation planning, and enhance the mandate of the CCDA to ensure transparency and accountability for the Authority. A regulation was also issued in 2022 ("NDC Regulation") to set up an institutional framework to support the implementation of the Enhanced NDC. This climate-specific legal framework is completed by the DMA 1984 (see ¶20) and by sectoral laws and regulations (water, fishery, energy, forestry, etc.) providing an initial basis for sectoral climate action. There are however several well-identified gaps which hamper NDC implementation, such as a lack of legal foundation for climate action in land governance, slow progress in amending the Agriculture Administration Act, absence of waste management legal framework, and only broad provisions regarding the coordination, planning and reporting of climate actions at the subnational level. In addition, the supporting regulations for several sections of the CCMA 2016[9] are pending. Lastly, several sectoral laws and regulations are due for updates, such as the DMA 1984 or water regulations for abstraction and wastewater discharge.

32. The operationalization of institutions for climate policy making and implementation at the national level is underway, but suffers from resource and capacity constraints and from limited coordination. The CCMA 2016 mandates the establishment of several bodies including: the CCDA, the central coordinating agency for climate related policy development and implementation; the NCCB, responsible for policies and oversight of the CCDA; and the Climate Finance Steering Committee, meant to oversee the coordination of climate finance at the national level. The latter two institutions are not operational yet. The NDC Regulations also mandate the establishment of a Technical Advisory Committee to advise the CCDA on NDC monitoring and implementation; the timing for operationalizing this committee has not been determined yet. The BPNG has established the GFC to spearhead activities regarding green and inclusive finance (see ¶24). Only a few sectoral

[9] i.e. those related to incentives for the promotion of climate change initiatives (Article 42), the deforestation levy (Article 24) or the establishment of the Climate Finance Steering Committee (Article 14 A).

departments and agencies have institutionalized climate planning, although the CCDA has set up several working groups to support engagement and coordination on sector specific activities. There has also been no concrete effort to mainstream climate change into Treasury's strategies and core processes, thus limiting the consistency of budget decisions with climate objectives. Ensuring stronger alignment of sectoral policies with overall climate objectives and avoiding silos remains needed to improve the effectiveness and credibility of climate policies. However, coordination mechanisms need to be carefully mapped out to avoid draining down staff resources. While the CCDA has kickstarted training efforts to sensitize and raise awareness on climate change, staff capacity remains a major cross-cutting constraint in enhancing climate action in PNG. At the subnational level, climate engagement remains at a pilot stage, with the CCDA having deployed Provincial Climate Change Coordinators in five provinces and piloted the creation of Provincial Climate Change Committees.

33. Climate-related data is limited and fragmented. Historical data on climate trends (temperature, precipitation, GHG emissions) is available but can differ significantly across sources. Information about climate hazards is also partial and fragmented. While several departments use geospatial mapping software, its effective deployment is hampered by limited sharing of hazard mapping data between agencies. In addition, climate-related information is generally not available in the government's financial systems. Modules on fixed assets under the government's integrated financial management system (IFMS) have been launched in a handful of departments, but they do not contain information on climate exposure. There is no configuration in the IFMS to provide any climate tagging of expenditure or investment projects. The existing asset management systems operated by the Department of Works and Highways (for roads and bridges) do not yet integrate information on climate-related maintenance plans or on climate exposures. There is no comprehensive project-level database of public and private green finance in PNG.

C. Cooperation with Development Partners

34. Climate finance from development partners has increased over the past ten years but remains insufficient to cover mitigation and adaptation needs. Over the period 2008-2021, PNG has received US$ 2.0 bn of climate-related development finance commitments, which includes all concessional and non-concessional activities with climate mitigation and/or adaptation as a principal or significant objective from bilateral, multilateral and private philanthropic sources, with a rapid acceleration in recent years (Figure II.8). More than two thirds of this support was received over the last five years of the period. About three quarters of the support has been provided by bilateral development partners, the most significant being Australia (almost half of all the support), Japan and EU institutions; while multilateral financing was dominated by the Asian Development Bank and the World Bank, and more recently, the Green Climate Fund (Figure II.10). Grants have represented 65 percent of the total support (Figure II.11).

35. Most of the climate finance received in recent years has focused on adaptation-related activities. Four sectors – transport, government, energy, and agriculture/forestry – have received about 70 percent of the financing over the 2008-2021 period (Figure II.9). In the transportation sector, recent projects have focused on enhancing the resilience of roads (WB, ADB, Australia) and port (EU) infrastructure. In the energy sector, the focus has been on the development of renewable sources (WB, ADB, Australia) and off-grid generation (Australia, Japan, EU). In disaster risk management, support has been provided over the years by Australia, UNDP, and WB to help enhance disaster risk responses and improve disaster preparedness. The authorities have also received climate finance and capacity development support for implementing their strategy to reduce emissions from deforestation and forest degradation (REDD+) from a range of development partners (Australia, UNDP, EU, France). Other areas for support have included health and sanitation (ADB, EU, EIB), green finance (Australia, New Zealand, ADB, IFC, France) and institutional frameworks (Australia, UNDP, GCF).

Figure II.8. Papua New Guinea: Climate-Related Development Finance (2008-2021)

(Commitments, US$ million, 2021 constant prices)

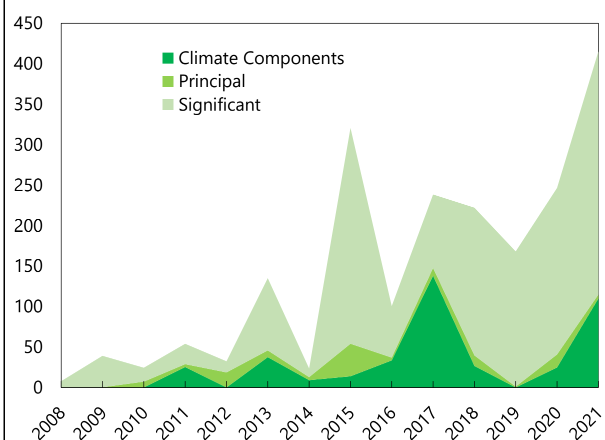


Figure II.9. Papua New Guinea: Sectors Having Received Climate-Related Development Finance

(Share of total commitments, 2008-2021 period)

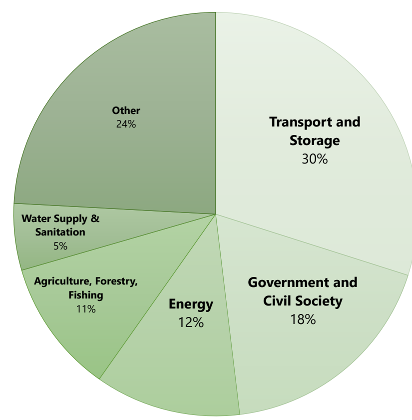


Figure II.10. Papua New Guinea: Top Providers of Climate-Related Development Finance (2008-2021)

(Commitments, US$ million, 2021 constant prices)

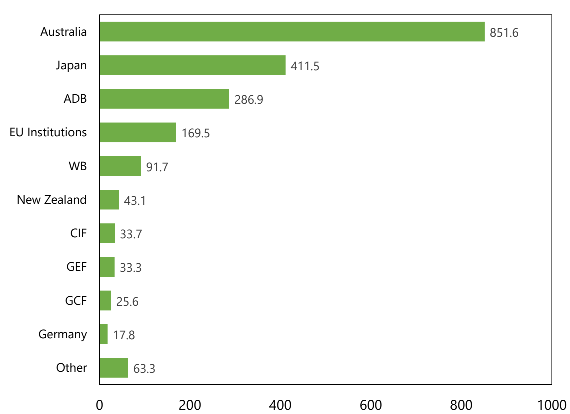
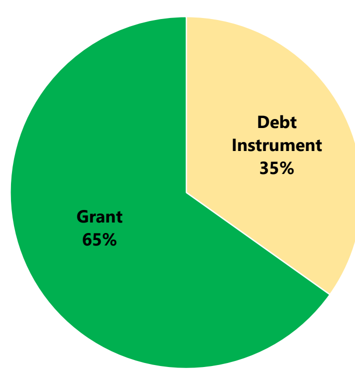


Figure II.11. Papua New Guinea: Financial Instrument for Climate-Related Development Finance

(Share of total commitments, 2008-2021 period)



Source: OECD-DAC. [Workbook: Climate-Related Development Finance Recipient 2021 (tableau.com)]

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Appendix I. Letter of Intent

Ms. Kristalina Georgieva	November 21, 2024
Managing Director	Port Moresby
International Monetary Fund	
Washington, D.C. 20431	

Dear Ms. Georgieva:

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

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

We are pleased to have met all end-June 2024 quantitative targets and indicative targets and all continuous performance criteria in the Third Reviews under the ECF/EFF. Out of four structural benchmarks due, we have fully implemented two in timely fashion, and partially implemented one. We were unable to implement the structural benchmark on the appointment of the Independent Commission Against Corruption (ICAC)'s oversight committee by end-September 2024 as initially planned due to delays in the advertising process. We remain committed to this reform and propose to reset the deadline for this structural benchmark to end-March 2025.

We have continued our progress on budget repair; after reducing our deficit in half since the pandemic, we remain on track to deliver an additional consolidation effort of at least 0.4 percentage point of GDP in 2024. The gradual implementation of central banking reforms has also started to bear fruit, with the easing of foreign exchange shortages and the mopping up of excess liquidity, while keeping inflation under control. Lastly, we have continued enhancing our anti-corruption and governance framework, including by supporting the Independent Commission Against Corruption in setting up its operations.

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

Despite the positive outcomes from the implementation of our program, there remain many challenges that we continue to proactively address: ensuring adequate financing to maintain our budget repair plan while protecting key social services; continuing governance reforms; dealing with our balance of payments imbalance; continuing to move back towards a freely convertible Kina and making access to foreign exchange more predictable for the private sector; and addressing our high exposure and vulnerability to the effects of climate change for many parts of our country.

Accordingly, our reform priorities for the next twelve months of the program will include raising domestic revenue, in line with our Medium-Term Revenue Strategy, and continuing to improve spending efficiency; passing amendments to the Income Tax Act and to the Internal Revenue Commission Act to strengthen revenue mobilization and improve performance and governance arrangements for revenue collection; strengthening our ability to control expenditure and to optimize government cash, including by devising a strategy to move to a treasury single account, for which we have requested IMF technical assistance. We will also continue implementing the monetary policy and exchange rate policy frameworks, as set out in our reform roadmap, notably by reinforcing the BPNG's ability to manage and forecast liquidity. And we will continue supporting the full operationalization of the ICAC and further improvements in governance and transparency. These will be the focus of our program, as set out in the attached Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding (TMU).

We request the completion of the Third Reviews under the ECF and EFF arrangements and the release of the related purchase and disbursement. We request the setting of the end-September 2025 indicative targets and end-December 2025 performance criteria. We also request the modification of the continuous performance criteria on the present value of new external debt for the rest of 2024 and for 2025, so as to accurately reflect our latest external borrowing plan. Upon approval of this request by the IMF Executive Board, we are requesting an immediate disbursement of SDR 94.75 million (36.0 percent of quota), of which SDR 31.58 million (12.0 percent of quota) under the ECF and SDR 63.17 million (24.0 percent of quota) under the EFF. This disbursement under the ECF/EFF program will help address balance of payments and budget financing needs, while smoothly achieving the next stage of our reform plan.

We are requesting a seven-month extension of the ECF/EFF arrangements to December 21, 2026 to ensure sufficient time to complete key reforms under the program. In recent months, we have endured an uncertain political environment and the civil unrest in January, which has led to a slowdown in the implementation of reforms. In addition, in order to preserve price stability and the soundness of our financial system, some of our critical structural reforms, such as the implementation of a treasury single account or the return to kina convertibility, necessitate a gradual approach, which will require more time. Consistent with this extension request, we are also requesting a rephasing of the remaining disbursements, with an additional review, and the current last disbursement proposed to be split equally across the last two reviews.

To help build our capacity to address the structural macroeconomic challenges posed by climate change, we request a roughly 24-month RSF arrangement (whose duration is proposed to coincide with the remaining duration of the ECF-EFF arrangement after the proposed extension) with access of 75 percent of quota, which would help build our policy buffers and improve the effective implementation of our international climate commitments. Given Papua New Guinea's high vulnerability to climate change and the pressing need to increase resilience, we have also been hard at work to develop climate mitigation, adaptation and disaster management programs in line with our international climate commitments and in coordination with our international partners. Thanks to the IMF's Climate Policy Diagnostic (CPD) and Climate Public Investment Management Assessment (C-PIMA), we were able to identify priority reform areas to help improve the resilience of our country and our people to climate change. This led to a proposed matrix of reform measures, which targets four main areas: 1) enhancing disaster risk management efforts; 2) integrating climate change considerations into public investment management processes and budget decision-making; 3) supporting the development of green and inclusive finance; and 4) supporting mitigation policies, particularly in the field of forestry and fuel efficiency. Given our large adaptation needs and our exposure and vulnerability to climate-induced natural disasters, we hope the RSF will help catalyze climate finance. Like the ECF/EFF, the RSF disbursements will be used for budget support; a memorandum of understanding between the Treasury and the BPNG will be signed to that effect.

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

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

Yours Sincerely,

/s/

Hon. James Marape
Prime Minister of the Independent
State of Papua New Guinea

/s/

Hon. Ian Ling-Stuckey, CMG. MP.
Minister for Treasury of the Independent
State of Papua New Guinea

/s/

Ms. Elizabeth Genia

Governor, Bank of Papua New Guinea

Att. (2)

Attachment I. Memorandum of Economic and Financial Policies

A. Economic Developments and Outlook

1. The Papua New Guinea (PNG) economy has been resilient since 2021, supported by steady growth in the non-resource sector. Real non-resource gross domestic product (GDP) growth has been strong since 2021 (4.2 percent in 2021, 5.9 percent in 2022, and 4.7 percent in 2023), thanks to the reopening of the economy and improved access to foreign exchange (FX). Real resource GDP growth has been volatile (-11.6 percent in 2021, 5.1 percent in 2022, and -1.6 percent in 2023). Average headline inflation declined significantly from 3.9 percent in 2023Q4 to 0.1 percent in 2024Q2, mostly driven by a sharp decline in betel nut prices. Average core inflation was broadly stable at 3.3 percent in 2024Q2 (3.0 percent in 2023). Consistent with the Bank of Papua New Guinea (BPNG)'s tightening monetary policy stance announced in March 2024, the Kina Facility Rate (KFR) was increased from 2.0 to 4.0 percent between May and September 2024. In addition, the cash reserve requirement ratio was increased from 10 to 12 percent to help mop up excess liquidity.

2. Near-term growth is expected to strengthen, while inflation normalizes toward its historical average. Growth is expected to pick up from 3.0 percent in 2023 to 4.5 and 4.6 percent in 2024 and 2025, respectively, supported by resilient non-resource sector activities as access to FX improves, and by strong growth in the resource sector as the Porgera gold mine gradually reaches full capacity and increased production from OK Tedi mine. Average headline inflation is projected at 1.3 percent in 2024 and expected to rebound to 5.1 percent in 2025 partly due to base effects, and the lag impact of exchange rate depreciation. Core inflation, which has been a more stable price indicator, is projected to average at 3.9 percent in 2024, mainly driven by food and transportation costs, and edge up to 4.5 percent in 2025. To keep inflation in check and contain FX pressures and support the exchange rate crawl arrangement, the BPNG may be expected to maintain its tightening stance over the period.

3. Over the medium term, we expect growth to be sustained by higher private investment, supported by the government's Poverty Reduction and Growth Strategy (PRGS). The economy is projected to grow at an average of at least 3.1 percent annually, as mining production returns to normal. The non-resource sector is expected to grow at 4.1 percent at least, supported by increased production in the agriculture sector, infrastructure investment – including the Connect PNG program, and private sector consumption and investment.

4. We recognize that the external environment is uncertain, but there are both downside and upside risks to the outlook for growth, exports, and the fiscal picture. Downside risks largely stem from a sharp downturn in the economic activity of our main trading partners, commodity price volatility, and exposure to natural disasters and climate change. Political and social instability could undermine the implementation of our reform agenda and worsen our business climate. However, we have been conservative in our current projections by excluding the effects of large extractive sector projects that have a high probability of moving forward. These projects would have a large positive impact on growth, investment, and, in the medium term, on exports and fiscal revenues.

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

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

6. PNG needs to build resilience against climate change-related risks. We rely heavily on agriculture, especially at the subsistence level and for export, which remains vulnerable to extreme weather conditions. According to the 2023 World Risk Report, PNG is ranked 12th in the world in terms of disaster risk exposure and vulnerability to climate change. Moreover, challenges persist in understanding the scope of country's climate vulnerability due to both a lack of study of localized historical and future climate conditions, and limited social data. In its 2021 Climate Risk Country Profile, the World Bank noted that hazards such as flash flooding, landslides, and coastal flooding are all likely to intensify. At the same time, the population affected by river flooding is projected to double by 2030.

7. Our structural reform agenda is geared to preserve macroeconomic stability, foster sustainable growth, and address our development and climate change adaptation and mitigation needs. As committed in our PRGS, we will continue to tackle long-standing impediments to poverty reduction and growth by prioritizing budget repair, strengthening debt sustainability, ensuring growth in social spending to increase the provision of services, addressing FX shortages, and strengthening the overall governance framework. In line with our international climate commitments, we also intend to continue building resilience in key sectors such as agriculture, water, and infrastructure, and to take action to reduce forest degradation and deforestation and increase the share of renewables in our energy mix.

C. Objectives And Performance Under the ECF/EFF Arrangements

8. The Extended Credit Facility (ECF) and Extended Fund Facility (EFF) arrangements approved in March 2023 are enabling us to make progress on our reform agenda, as outlined

in the PRGS, to ensure sustainable growth and poverty reduction especially for rural areas. The program aims to ensure that we:

- Continue to progress our program of budget repair with the aim of strengthening domestic revenue mobilization, improving the quality and composition of public expenditure, and lowering public debt to meet the requirements of our Fiscal Responsibility Act (FRA), including bringing the budget to a balanced position by 2027;

- Continue on our program of foreign exchange repair, including further modernization of the governance and operations of the BPNG, thereby allowing us to durably address foreign exchange (FX) shortages and reinstate the convertibility of the Kina; and

- Strengthen the overall governance framework in PNG by operationalizing the Independent Commission Against Corruption (ICAC) and instating a program to improve our AML/CFT framework consistent with the Financial Action Task Force (FATF) standards, while ensuring that our financial and payments systems become more efficient and better support financial deepening and inclusion.

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

9. We have continued making progress in implementing our agenda of critical structural reforms in recent months, in line with our commitments under the ECF/EFF arrangements. All quantitative performance criteria (QPC) and indicative targets (IT) as of end-June 2024 were met (Table 1). Out of four structural benchmarks (SB) due by end-September, we have met two, partially implemented one, and proposed to reset the deadline of the last one (see ¶10). We also confirm that two of the SBs due at end-June, which were due at the time of the second reviews, were met in timely fashion. Our achievements include the following, in chronological order:

- We developed an initial worksheet of output-based key performance indicators to be applied at the Internal Revenue Commission (IRC)'s individual, team and division levels, with the aim to enhance revenue administration and increase IRC's productivity (May 2024, met at the second reviews);

- We held the first meeting of a newly established inter-agency working group on external sector statistics, with the aim to improve the consistency of external sector statistics with other official statistics and to foster better information sharing (June 2024, met at the second reviews);

- We started implementing an interest rate corridor centered around the KFR and bounded by standing overnight facilities priced at ±150 bps around the KFR, as another step in the beginning to strengthen the transmission of monetary policy signals to market price (SB met, August 2024);

- We also modified the cash reserve requirement framework for commercial banks by establishing partial reserve averaging and extending the lagged maintenance period, to offer more flexibility to banks in managing their liquidity (SB met, August 2024);

- We have made progress in cleansing our payroll records, including with the implementation of a national identification system and the move of unattached officers to centralized positions in all National Capital District (NCD) agencies (August 2024, SB partially implemented). We propose a new SB due by the fourth reviews to continue improving the quality of our payroll records (see ¶21).

10. We propose to reset the deadline for the structural benchmark relating to the appointment of the ICAC's oversight committee. While we are committed to appoint the committee, consistent with the ICAC Act and effectively bringing its governance in line with best international practice, we were unable to complete the process by end-September 2024 as initially planned. Advertising the positions took more time than expected, in part due to delays in funding. We are working to ensure that the appointments are fully carried out in the coming months (**SB with a proposed reset deadline by end-March 2025**).

11. We are on track to meet the other structural benchmarks which were set at the time of the second reviews of the ECF/EFF arrangements and due in the coming months. We are finalizing the drafting of the Income Tax Act (ITA) rewrite with the help of IMF TA and the Internal Revenue Commission (IRC) Act, to help simplify and enhance the collection and administration of income taxes and to establish a Board for IRC's oversight. We are also in the process of preparing memoranda of understanding between ICAC and other major agencies involved in the fight against corruption, to facilitate inter-agency collaboration.

12. We are requesting a seven-month extension of the ECF/EFF arrangements to December 21, 2026 to ensure sufficient time to complete key reforms under the program. In recent months, we have endured an uncertain political and social environment, which has led to a slowdown in the implementation of reforms. In addition, in order to preserve price stability and the soundness of our financial system, some of our critical structural reforms, such as the implementation of a treasury single account or the return to kina convertibility, necessitate a gradual approach, which will require more time.

D. Government Policies Under the ECF/EFF Arrangements

Fiscal Policies

13. In 2024, we have continued fiscal consolidation, in line with our medium-term budget repair strategy. For 2024, we are committed to the program's deficit target under the ECF/EFF arrangement at K4.8 billion (3.9 percent of GDP). This corresponds to a consolidation effort of 0.4 percentage points of GDP relative to 2023. If conditions allow, we are committed to achieve an even smaller deficit, in line with our 2024 Budget. Overall, total revenue (including grants) is expected to increase relative to 2023 by 0.8 percentage points of GDP, mostly driven by a moderate increase in non-tax revenue and a strong growth in grants. On the expenditure side, expenditure-to-GDP is expected to increase by 0.4 percentage points relative to 2023, including an increase in payroll for the education and health sectors.

14. We are committed to continue fiscal consolidation in 2025. We intend to further reduce the fiscal deficit to PGK3.5 billion (2.6 percent of GDP) in 2025, supported by revenue mobilization (yielding 0.6 percentage points of GDP) and expenditure consolidation (0.7 percentage points of GDP). On the revenue side, the adoption of a clear dividend policy for state-owned enterprises (SOEs) and state entities and the full implementation of the Non-Tax Revenue Administration (NTRA) Act to cover all revenue-generating agencies are expected to yield additional non-tax revenue of about PGK1.0 billion (0.6 percent of GDP) relative to 2024. The rollout of the withholding of goods and services tax (GST) at source for SOEs and sub-national governments in late 2024 and the installation of a GST monitoring system in 2025 are expected to improve GST compliance relative to 2024 (PGK0.6 billion or 0.2 percent of GDP). The decline in deductions related to accelerated capital depreciation will start yielding additional mining and petroleum tax (MPT) revenue in 2025 (PGK0.3 billion, 0.1 percent of GDP)). On the expenditure side, interest payments are expected to increase by around PGK0.5 billion (0.1 percent of GDP) due to high domestic and global financing costs. To offset this increase in interest payments, we will keep our GoPNG Public Investment Programs (PIP) at the same nominal level as in 2024, and we will contain the growth in compensation of employees. The costing of these measures will be further refined in our 2025 Budget.

15. Going forward, we will continue to rationalize current spending while preserving priority social spending, in line with our objective of reaching a balanced budget by 2027. This will be supported by domestic revenue mobilization efforts and enhanced expenditure efficiency, especially reprioritizing spending in favor of poverty reduction and sustainable development, with a proposed increase of the social spending floor (end-Sept 2025 IT and end-December 2025 IT). This will put public debt firmly on a downward trajectory, reducing risks.

16. While our fiscal targets are ambitious, we are confident that they are achievable. We recognize that our fiscal framework hinges on our ability to carry out successful revenue policy and revenue administration reforms, supported by capacity development from the IMF and development partners, and on favorable global economic conditions and commodity prices. We maintain an indicative target (IT) on non-resource tax revenues, highlighting our commitment to revenue mobilization throughout the program. But our resource revenue is subject to significant volatility. In the event dividend payments or other revenues over-perform, we will use the additional amount to accelerate the clearance of the stock of domestic payment arrears, increase priority spending, and reduce the deficit. If revenue significantly underperforms, we will undertake expenditure adjustments to meet our fiscal deficit target. As part of the 2025 Budget preparation, we are identifying contingency measures consisting of spending items that could be reappropriated and programs that could be deferred, such as lower-priority investment projects and goods and services; we will communicate these measures to the Fund.

17. We intend to accelerate domestic revenue mobilization through the implementation of our newly published MTRS, as well as the adoption of major legislative changes by the end of

the year. The MTRS is intended to guide our revenue policies and administration reforms through to 2027, serving as a reference for reform conditionalities for future program reviews. We will accelerate the implementation, starting with the 2025 Budget (¶14). MTRS reforms are aimed at broadening the tax base by reducing distortions and addressing the policies that hinder the effectiveness and efficiency of tax compliance and services. In particular, the ITA rewrite is intended to simplify and modernize our tax system, close loopholes that were not envisaged when the original legislation was prepared and broaden the tax base in some areas – and improve tax compliance and administration. Following the last broad consultation with key stakeholders in late October with help of the Fund TA,, the latest draft of the ITA rewrite is nearing completion. We expect that the proposed amendments will be submitted to Parliament together with the 2025 Budget (ongoing SB due by end-December 2024). The amended ITA, if successfully passed in Parliament, will enter into operation in early 2026. The new ITA will be fit-for-purpose and will improve PNG's business and investment environment.

18. The modernization of the IRC and Customs' operations will also contribute to enhancing revenue administration.

- With the support of the IMF, the ***IRC*** has finalized an initial set of key output-based performance indicators to better monitor its administration and related revenue gains (**SB met at the second reviews**). In addition, to enhance the IRC's accountability, we are preparing amendments to the Internal Revenue Commission (IRC) Act 2014 to establish a Board for the IRC's oversight (ongoing SB due by end-December 2024). An updated Tax Administration Diagnostic Assessment (TADAT) is expected to be conducted by the Fund by the end of the year and will help us measure progress in tax administration systems since the previous assessment in 2019. Meanwhile, the NEC has approved the supplier and the IRC is in the process of contracting the supplier to procure the Integrated Tax Accounting System (ITAS) and GST Monitoring System; we anticipate commencing the installation by early 2025.

- With the aim of increasing customs revenue collection, the ***PNG Customs Services*** is enhancing its capacity to address tax evasion and smuggling through legislative review to strengthen customs enforcement, compliance measures, and controls; the new Single Window Project to improve customs declaration procedures; intelligence gathering and analysis; risk management, including through the Container Examination Facility in Lae to improve turn-around time on cargo clearance and risk management; customs valuation; and post-clearance audits.

19. Consistent with our budget repair strategy, we are committed to reduce the overall spending envelope as percent of GDP. In 2024, we have exceeded our budget for personnel emoluments (PE), as the information on payroll increases in the education sector was not available during the 2024 Budget process. In our 2025 Budget, we have proposed a more realistic budget allocation for PE, accounting for the outturn in 2024, and allowing for further hiring of police, teachers, and health care workers (see ¶20). This process is coupled with payroll efficiency reform efforts, which include data cleansing over current payroll records and upgrades to the payroll system (see ¶21). Goods and services expenditure has maintained fixed costs such as utilities and rentals and prioritized the economic sector to drive revenue generation. The 2025 Budget strategy aims to achieve a unified budget where the operational budget complements the key capital investment priorities. The capital expenditure is directed towards the economic and infrastructure sectors with the intent to grow the economy. We have requested a Public Investment Management Assessment (PIMA) from the IMF to help identify key reform priorities to enhance the efficiency of our capital spending and increase our infrastructure outcomes.

20. We have continued to modernize our budget preparation process in 2025. We have aligned the early stages of the budget process with the government's fiscal plan. Hence, we have substantially improved the budget planning and preparation process. We introduced reforms to improve the Strategic Budget Management Committee (SBC) to help guide budget setting within a top-down limited framework. The SBC is now taking a more strategic sectoral approach. We also improved our budget timetable by issuing circulars earlier to give more time for agencies to plan and submit their budget bids Another substantive improvement that we have done for the 2025 Budget preparations is through a review of the PE. To further strengthen the policy focus of the budget, enhance spending efficiency and provide early high-level guidance on the orientation of the budget, we have requested IMF technical assistance on strategic budgeting. Lastly, we have requested IMF technical assistance on tax modeling to enhance the reliability of our revenue forecasts in the budget.

21. We are enhancing the management and efficiency of payroll expenditure and strengthening human resource (HR) compliance. The Department of Personnel Management (DPM) made progress in our data cleansing exercise of current payroll IT records in AscenderPay (**SB partially implemented**). In the National Capital District (NCD) area (Port Moresby), the registration on the PNG National Identification (NID) system of all public servants (12,439) has been completed, but not yet listed on the AscenderPay IT system. Given the difficult task ahead to cleanse the data in the more remote provinces, we will re-focus our efforts in the short run on finalizing the other components of the data cleansing exercise in the NCD. This will entail: (i) categorizing all remaining unattached officers (estimated at 2,564 as of September 30, down from 5,636 in July); (ii) correcting anomalies in employee data (demographics) for economic and administrative sectors; and (iii) listing NID registration numbers in the AscenderPay IT system for all public servants in the NCD. We will produce a report on the outcome of this cleansing exercise and share it with the IMF (**new proposed SB by end-March 2025**). Rectifying unattached officers (through redeployment, retirement and retrenchment) may have upfront fiscal costs. Where this is seen to be worthwhile in improving the fiscal position and payroll integrity, this will be prioritized. Sectors other than the economic and administrative sectors are also progressing, albeit with some delays due to data and other constraints. In future periods, we will cleanse allowance, leave and positional data and implement further payroll controls to maintain payroll integrity. DPM will identify data anomalies on the AscenderPay system and provide to Teachers Service Commission (TSC) to initiate the data cleansing exercise for all teachers across the country. Teachers' data cleansing involves rectifying position occupancy mismatches, inclusion of demographic data, compliance with compulsory retirement policy, enforcing the "one position, one person and one pay" policy. Based on experience from this exercise, we will expand the data cleansing exercise to additional provinces in phases.

22. We remain committed to actively verifying and clearing Government arrears accumulated in previous years. The Arrears Verification (AV) program established in January 2020 allows us to gradually clear the stock of arrears on goods and services. Since its creation, and as of April 2024, the AV Committee has received submissions of claims amounting to PGK6.3 billion, and successfully verified PGK3.2 billion and paid PGK1.4 billion. We also remain committed to increasing our budget allocation to the AV program in future initial and supplementary budgets, should revenue overperform, in addition to the PGK300 million appropriated in the 2024 Budget (of which K219 million has been spent), and the PGK300 million envisaged for 2025. Finally, through our lease management system, we have been able to better monitor and reduce the stock of rental and utilities arrears. The current stock of rental arrears is PGK284.9 million.

23. We are also committed to preventing new arrears through enhanced commitment controls and improved IT functionality. As of end-June 2024, we have not accumulated further payroll arrears and have continued paying domestic debt on time (IT). We remain committed to doing so going forward. We are also actively working to prevent accumulation of new domestic arrears on goods and services by enhancing the monitoring of expenditure commitments. Based on the findings and recommendations of recent IMF technical assistance on expenditure controls, we are continuing to work on a concept for a commitment accounting framework, which will also comprise a contract management system to help enhance the monitoring of multiyear commitments. We have already requested follow-up technical assistance from the IMF on these areas. In addition, we plan to modernize our IT system through a three-stage strategy to enable more automated, timely and effective monitoring of budget execution. This will include moving the Integrated Financial Management System (IFMS) to the cloud (Phase 1, expected by end-March 2025), upgrading to a new version of the software for the IFMS, which will offer an integrated dashboard capability (Phase 2), and studying finance solution requirements for a broader reform of the government financial IT systems (Phase 3). In parallel, to improve debt management processes and enhance operational efficiency and data accuracy, we will create an interface between our debt reporting system (Meridian) and the IFMS to automate the transfer and reconciliation of debt data across the two IT systems (**new proposed SB by end-September 2025**).

24. We are working to modernize our cash management practices, including by reducing our reliance on trust accounts and by developing a Treasury Single Account (TSA). Under our current decentralized framework, payments for a large number of government projects are still being carried out through trust accounts in the BPNG and commercial banks, funded by transfers appropriated in the government budget. While we actively monitor and report cash movements on these accounts, they create challenges for the government's active management of cash and for BPNG's liquidity management. We have reduced their balances (consolidated balance of PGK0.6 billion at end-June 2024, against PGK1.0 billion at end-December 2022). The remaining COVID-19 emergency trust account balances have been closed in September 2024. In addition, many government agencies, particularly at the provincial and local levels, keep operational accounts within commercial banks, hence outside of the Consolidated Revenue Fund (CRF) at the BPNG, leading to large amounts of idle government cash outside of the central bank. To enhance government cash management practices, we intend to formulate a sequenced strategy for the implementation of a

TSA (**new proposed SB by end-December 2025**), which will be mindful of financial stability considerations given the high concentration in the banking sector and the need to increase capacity at the central bank. We have requested follow-up IMF technical support in that respect.

25. We adjusted our debt financing plan for 2024 given the tighter domestic financing conditions. In the third quarter of 2024, the continued mopping up of excess liquidity from the financial system and easing of FX shortages were accompanied by a reduction of domestic borrowing, partly due to the slow adjustment in the rates of government securities offered to market participants as well as liquidity constraints. Despite the improvement in the fourth quarter, gross issuance of T-bills and T-bonds in 2024 is expected to be PGK2 billion lower than the original targets. The resulting financing gap will be filled by larger external financing.

26. We will continue to strengthen our debt management capacity and maintain a prudent financing strategy to reduce costs and lower risks. We are advancing on the implementation of the Guarantee Policy and its corresponding Guidance note and tools. Additionally, the first annual Debt Bulletin, containing debt statistics as of the close of 2023, will be published by end of November 2024. Meanwhile, the financing strategy includes the substitution of costly financing with concessional financing from multilateral and bilateral partners and larger reliance on longer tenors in domestic financing to reduce rollover risks. We met the present value limit on new public external debt contracted for September 2024 (IT) as no new external loans or sovereign guarantees were contracted in the first three quarters of the year. By year-end, given contracted external project and budget support loans and guarantees issued on behalf of our national airline, we request a modification of our approved present value limit on new public external debt ceiling to US$1.425 billion (continuous QPC). In our 2025 Budget, we remain committed to carefully monitoring and controlling risks by maintaining a present value limit on new public external debt to be contracted at US$810 million (continuous QPC). We also maintain our goal of non-accumulation of new external payment arrears (continuous QPC). More generally, we will continue to ensure that our borrowing plan will be closely linked to the financing needed to execute our budget, following a transparent borrowing program and on-budget spending.

27. Our future borrowing programs will be closely guided by the Debt Sustainability Analyses undertaken by the IMF and World Bank, and our upcoming Medium-Term Debt Strategy (Debt Strategy). The Debt Strategy has been completed and endorsed by the NEC on the 30th of October, 2024. In addition, we have started preparations on the redemption plan for the US$500 million Sovereign Bond maturing in 2028. The process begins with prime ministerial approval of a borrowing committee comprising the Department of the Treasury and BPNG, whose members will analyze options including Debt Swaps, funding by international partners, and devising an action plan to accumulate needed financial resources. Supported by IMF TA, we will aim to further develop debt management capacity, with the objective of expanding debt coverage to include SOEs.

Monetary and Exchange Rate Policies

28. We are implementing our roadmap for monetary policy and exchange rate reform. Controlling cost of living and preserving price stability is at the heart of our monetary policy framework, which is geared toward maintaining macroeconomic and financial stability and sustaining economic growth. Returning to kina convertibility and an appropriate exchange price for PNG's exports and imports is at the heart of our foreign exchange policy plans. Our roadmap, which was approved in August 2023, contains a series of reforms to be undertaken by the BPNG to strengthen monetary policy and exchange rate policy frameworks and operations and to aid the communication of monetary policy to the public. It also contains measures to improve government cash management and to reinforce inflation forecasting and monitoring. The roadmap is an important commitment that has been continuously serving as a reference for reform conditionalities in the context of the ECF/EFF arrangements. We are benefitting from IMF TA to help with reform implementation, consistent with the sequencing of the roadmap.

29. Since early 2024, we have been implementing a de facto crawl-like exchange rate arrangement to support the gradual return to kina convertibility by the end of the program. Under this arrangement, the USD/PGK exchange rate has gradually depreciated by 5 percent between January and mid-October 2024. In July, we revised the rate of crawl, consistent with the framework for the de facto crawl-like arrangement approved in December 2023. We have also started implementing the multiple-price FX auction mechanism in June 2024, paving the way for a more competitive interbank market and to better match with the distribution of essential FX orders. Given the persistent mismatch between FX demand and supply, the large pent-up demand for FX, and the tightening liquidity conditions, it is critical that authorized foreign exchange dealers continue prioritizing essential orders before tackling non-essential ones. This arrangement is transitional, helping us move towards more exchange rate flexibility and convertibility in a safe manner. We see as a high priority to fully resolve the misalignment of the kina over the program and restore kina convertibility. This, alongside other efforts to attract foreign investment and to improve the business environment, will help enhance the competitiveness of our exports, including in the agricultural sector, and thus increase rural incomes and improve living standards.

30. The BPNG will continue to implement appropriate policy measures to help keep inflation expectations anchored and ensure consistency with our exchange rate arrangement. The real overvaluation of the kina has decreased since the second review, due to the combined effect of the gradual depreciation against the USD and the moderate depreciation of the USD against the currencies of our major trading partners; yet, the real effective exchange rate is estimated to be still above its equilibrium. Moving towards kina convertibility will hence require further adjustment in the exchange rate to ensure its pricing reflects market conditions more accurately (and over time may involve a shift to crawling against a basket of currencies, to provide greater certainty about the extent of the effective adjustments). The Kina is expected to continue its gradual adjustment toward a market-clearing rate, which will further assist in alleviating FX shortages that have hindered investment and economic activity. The crawl-like exchange rate arrangement is anticipated to stimulate export growth and boost FX inflows, and to help restore full Kina convertibility in the near to medium term. We will continue to closely monitor liquidity conditions and adjust our policy toolkit accordingly.

31. To ensure a smooth transition to kina convertibility, we remain committed to a gradual elimination of FX rationing measures. To alleviate FX shortages and to help clear essential payments, we have continued intervening actively on the FX market. Over the first six months of 2024, we provided US$750 million to authorized foreign exchange dealers, helping to address essential orders and the backlog of import orders; the total stock of import orders older than two months was brought down to zero, highlighting improvements in the timing of access to FX, supported by good FX inflows especially from the mineral sector. Yet, the economy still faces a persistent mismatch between FX supply and demand; in addition, there is still pent-up FX demand from dividends waiting to be repatriated as well as external investment plans by domestic superannuation funds. To avoid unintended outflow of FX for non-essential orders, we have published a priority list in the form of a Directive which reiterates the existing requirement for all authorized foreign exchange dealers to use all FX flows to prioritize and clear essential foreign exchange orders. We will continue to proceed with the gradual removal of the FX rationing measures to ensure a smooth transition to the market-clearing exchange rate. We are also working to set up an inter-departmental committee and develop a government-wide strategy to increase net FX inflows to the economy and enhance PNG's competitiveness and attractiveness for foreign direct investment; the findings of this committee will inform future structural benchmarks under the program.

32. We will continue to build on the successful implementation of the fixed rate full allotment (FRFA) to further enhance liquidity management and improve monetary transmission. Our FRFA auctions have helped mop up a substantial part of the excess liquidity in our financial system. In line with our roadmap and the international good practice on liquidity management, we have introduced a mid-rate corridor on the KFR, bounded by standing overnight deposit and borrowing facilities at the discretion of the financial institutions and priced at ±150 basis points around the KFR (**SB met**). To enhance the cash reserve requirement framework, we have also introduced partial reserve averaging and extended the maintenance period to 4 weeks (**SB met**). These measures are helping to further reduce excess liquidity and improving liquidity management and monetary transmission. We will ensure that financial institutions not subject to reserve requirements will no longer have access to the CBB auctions (**new proposed SB by end-January 2025**). To complement the main 7-day CBB instrument, and as foreshadowed in the BPNG March MPS, we are committed to issue a 28-day CBB once every 4-weeks, with a standard issue size, to reserve-maintaining and supervised financial institutions, in competitive auctions, with BPNG as price taker (**new proposed SB by end-February 2025**). Lastly, the BPNG will develop liquidity forecasting framework and liquidity monitoring tables, allowing to prepare weekly forecasts for the Monetary Operations Committee, to be developed with the support of IMF technical assistance (**new proposed SB by end-July 2025**).

33. The amendments to the Central Banking Act (CBA) adopted by Parliament in September 2024 contribute to reinforcing the financial independence, mandate, and autonomy of the BPNG. These amendments, prepared in consultation with the IMF, have addressed issues related to the mandate, governance, autonomy, transparency, and accountability of the BPNG. This includes the ranking of the mandates of the BPNG with price stability as the BPNG's primary objective, the establishment of a separate Monetary Policy Committee (MPC) for monetary policy formulation, and clearer limits on the provision of advances to the government. The government is committed to proceed swiftly with the appointments of the MPC members. The amendments also introduce an emergency liquidity assistance framework, as well as improvements to the external and internal audit functions. We remain committed to progress in implementing the pending IMF safeguards assessment recommendations. This includes for example the preparation of Board and committee charters and the timely publication of financial statements. The BPNG's financial statement for FY23 has been externally audited and should be published by the end of the year. We intend to restore timeliness of publication going forward. Finally, we continue to avoid monetary financing, as illustrated by our continued compliance with the QPC floor on the BPNG's gross credit to government.

Financial Sector Policies

34. Financial inclusion is critical to PNG's development and should be balanced with preserving financial stability. The financial inclusion strategy for 2023-2027 provides a roadmap for PNG to accelerate financial inclusion through collaboration with various stakeholders, international development partners, and financial institutions, with the aim of reaching 2 million unbanked population by 2027, including 50 percent of women, in particular in rural areas. Key strategic objectives include building financial competency through financial literacy and education, strengthening the regulatory environment, developing efficient digital infrastructure, promoting effective public and private sector engagement, developing an enabling environment for inclusive green finance and deepening financial service delivery through harnessing new emerging technology. We are currently rolling out the strategy to provincial levels and are planning training programs, both in-person and online, to support this rollout. We recognize that financial inclusion efforts need to be balanced with financial stability and integrity of the system. The recent IMF financial sector stability review (FSSR) has helped identify key reform priorities to ensure the soundness and resilience of our financial sector; this includes for example the establishment of a Financial Stability Committee and the development of stress testing to improve systemic risk assessment, for which we intend to request additional technical assistance.

35. We are committed to enhancing our AML/CFT framework, in line with the Asia/Pacific Group on Money Laundering (APG)'s recommendations. The APG mutual evaluation onsite visit took place in October 2023, and the mutual evaluation report was discussed at the September 2024 APG Plenary. The report, which will be published in November 2024, highlights nine priority actions to improve the technical compliance and effectiveness of the AML/CFT framework. The BPNG's Financial Analysis and Supervision Unit (FASU), in coordination with the Department of Justice and Attorney General, continues to monitor and enforce compliance with PNG's AML/CFT legal and regulatory framework, and to mobilize government agencies through the National Coordinating Committee (NCC) on AML/CFT, which provides oversight on AML/CFT reforms. In August 2024, the NCC endorsed a short-term strategy to deal with the priority actions stemming from the mutual evaluation report, including reviewing and updating ML/TF risk assessments, establishing information sharing arrangements between law enforcement agencies, improving timely access to information, enhancing the quality of suspicious transactions reporting, applying a risk-based approach in monitoring and supervising AML/CFT compliance, investigating and prosecuting financial crimes, asset forfeiture and confiscation, and amending the legal framework for beneficial ownership. The findings and recommendations of the published ME report will guide the definition of SBs under future program reviews.

Governance

36. By becoming fully operational, the Independent Commission Against Corruption (ICAC) will deliver an effective anti-corruption framework, which will support inclusive economic growth. To make the ICAC fully operational, we have significantly ramped up its funding, from PGK10 million in 2023 to a PGK47 million allocation in the 2024 Budget (79% disbursed as at early October). This has allowed ICAC to triple its staffing in one year (61 staff, against 18 in July 2023), complementing domestic skills with global expertise, establishing new premises, meeting legal costs and building its forensic capabilities. We are committed to sustaining an appropriate level of funding for ICAC in the 2025 Budget and beyond, which will gradually allow ICAC to reach full staffing. Since the adoption of key implementing regulations to the ICAC Act in May 2024 and the finalization of its Code of Conduct, the ICAC has continued to develop its operations manuals, including a draft commission hearing manual, and is now starting work on its intelligence manual. Consistent with the Act, we intend to appoint its oversight committee, effectively bringing its governance in line with best international practice. Due to delays in the advertising processes, we now expect to complete the appointments by end-March 2025 (**SB with a proposed reset deadline by end-March 2025**). The ICAC has also established a team to review the National Anti-Corruption Plan of Action 2020-2025 and prepare its successor; a key stakeholder meeting is planned for late 2024 to discuss progress against the 15 strategic priority actions of the Plan. The ICAC has invested substantially in upgrading its IT system towards more secure solutions, successfully rolling out a new case management system. The ICAC's revamped website has been launched earlier this year, allowing ICAC to disseminate information on the ICAC's operations, including its engagement and prevention programs. To enhance cooperation with relevant anti-corruption bodies, the ICAC is working towards adopting memoranda of understanding with the BPNG's Financial Analysis and Supervision Unit (FASU), the Police, the Ombudsman's Office, the Auditor General's Office (AGO) and the Public Prosecutor's Office in the coming months. Two memoranda have already been drafted and are awaiting signature. The ICAC still targets to sign memoranda with at least four of these five institutions by the end of the year (ongoing SB by end-December 2024).

37. We remain committed to making progress in strengthening transparency around procurement information, particularly regarding beneficial ownership. We intend to revise the Public Procurement instructions to require, for all new major public procurements, the collection of beneficial ownership information in bidding documents. We are also committed to continue working towards setting up an effective register for this information. Going forward, we are committed to work towards the publication of all public procurement contracts to further enhance fiscal and financial transparency. We are also looking forward to benefitting from IMF advice on how to strengthen procurement procedures for public investment, as part of the recently requested PIMA.

To continue improving the quality and reliability of broader fiscal data, we will ensure that the Auditor General's Office (AGO) is appropriately staffed and funded to carry out its external audit mandate.

38. To enhance fiscal and financial transparency, we remain committed to extending the coverage of GFS reporting, and improving consistency of statistics, particularly for the external sector. We have been enhancing our GFS reporting, with Fund support, including by releasing more comprehensive GFS tables in the budget book, and developing fully GFS-compliant budget estimates volumes. We are continuing to work to better reflect the fiscal positions of the provincial and SOE sectors in the budget documentation. Ongoing TA support on external sector statistics continues to yield results, as shown by the balance of payments statistics published in accordance with the 6th Balance of Payments Manual (BPM6). To further improve the consistency of external sector statistics with other official statistics, future meetings of the inter-agency working group on external sector statistics (ESS) (started last June)—comprising representatives from the NSO, Treasury Department, PNG Customs Service and the BPNG—will also include relevant actors from the mining sector and occur on a quarterly frequency, to support the production of ESS. We are also preparing to produce international investment position (IIP) statistics in 2025 with the Fund's support. Fund support in 2025 will also assist with review of the Provincial Government Chart of Accounts to support GFS reporting. Lastly, the Financial Statistics module of the FSSR will further help the BPNG in improving the quality of financial soundness indicators data and central bank monetary and financial statistics data.

39. We continue to improve the governance and financial transparency of SOEs and state entities. Since amending the legal and policy framework for SOEs with the support of the Asian Development Bank (ADB), we have strengthened their overarching financial and corporate governance, with improvements in the timeliness of financial information of SOEs and in the transparency and gender balance of SOEs' senior appointments. We intend to continue improving the reliability and quality of financial information for SOEs, as well as the timeliness and publication of financial statements for state entities. We also intend—including with the continued support of ADB—to gradually improve the operational and financial sustainability of SOEs by aiming at full cost recovery and reviewing tariff frameworks, particularly in the power and water sectors, while ensuring that Community Service Obligations are properly funded. To improve the transparency and predictability of dividends paid to the budget, we intend to pass a dividend policy for all state holding companies (Kumul Consolidated Holdings, Kumul Petroleum and Kumul Minerals) at the National Executive Council which would clarify principles and rules for the calculation of annual dividend payments (**new proposed SB by end-February 2025**).

Social Protection and Poverty Reduction

40. Our Poverty Reduction and Growth Strategy (PRGS), the Medium-Term Development Plan IV (MTDP IV 2023-2027), is under implementation. It was prepared and conceived as a roadmap for the Government, outlining its strategic policies aimed at achieving key developmental objectives which would all contribute to effectively reducing poverty. These objectives include growing our economy to PGK200 billion by 2030, doubling both domestic revenue and export proceeds, creating one million additional jobs, and improving the quality of life for all our people. The MTDP IV incorporates new policy, legislative and institutional initiatives to attain these objectives and progress the country's inclusive development. Key initiatives expected to contribute to alleviating poverty include reforms to reinforce the micro, small and medium-sized enterprises, the continuation of the Connect PNG policy, the development of a national health insurance policy, enhancements to energy security policies, and the expansion of our education infrastructure. Our provinces and districts will also be expected to deliver minimum service standards through structural transformation in the provincial and district administrations.

41. We remain committed to meeting the most pressing needs of our people, particularly the most vulnerable. In the first half of 2024, spending directed to the education, health and law and order sectors was PGK3.1 billion, well above the program target (IT). The government continues to support the Government Tuition Fee Subsidy (GTFS) scheme, which supports over 2.2 million students across over 10,000 schools. Funding for the Tertiary Education Student Assistance Scheme assisted over 18,000 students and the Higher Education Loan Program supported over 13,000 access further studies. The government's concerted efforts have increased access to education, with a notable rise in student retention rates and improved learning outcomes in rural and urban schools alike. In 2024, we have continued to redirect our expenditure to these priority sectors to increase the number of teachers, health workers and police. The overall trend in spending demonstrates the government's commitment to improving public service delivery and meeting the objectives of our MTDP IV. We are also working closely with our development partners to make further progress on strengthening our social safety net programs. Key achievements include improvements in rural service delivery, the launch of targeted initiatives to address urban youth unemployment, and expanded labor mobility programs. Efforts are underway to remove barriers to employment and address pressing issues such as child nutrition and the spread of communicable diseases.

E. Government Policies Under the Proposed RSF Arrangement

42. The proposed RSF arrangement will help us build policy buffers and support the implementation of our climate-related reform agenda, to enhance our resilience to climate change. The program aims to support our existing climate change mitigation and adaptation objectives, as set out in our enhanced Nationally Determined Contribution, our National Adaptation Plan and our MTDP IV, with the following fourfold focus:

- Build up frameworks and capacity to improve disaster risk management and ensure more predictable disaster risk financing mechanisms, in the face of our high exposure and vulnerability to climate-related natural disasters;
- Ensure that our frameworks and processes for the management of our existing and planned infrastructure assets take climate considerations into account throughout their life cycles;
- Continue to create an enabling environment for the development of a greener and more inclusive financial sector, which will be critical in attracting climate finance from public and private stakeholders to meet our climate adaptation and mitigation needs; and

- Design smarter tax policies to incentivize less carbon-intensive activities, particularly in forestry and energy consumption, while protecting the most vulnerable and preserving the livelihoods of local communities. This would support our international commitments on climate mitigation, which include an objective of carbon neutrality by 2050, increased carbon absorption from our forest, and an increase in the share of renewable energy in our energy mix to 78 percent by 2030.

The program would contribute to these domestic objectives through the agreement on a series of commitments on specific reform measures (RMs) to be implemented over the duration of the program, which will all be supported by capacity development activities delivered by the IMF and other development partners. We expect that the successful implementation of our RMs will help catalyze financing for climate change from bilateral and multilateral donors as well as from the private sector.

43. We intend to strengthen our disaster risk management (DRM) efforts to help preserve lives and livelihoods and improve our responsiveness and resilience to climate-related disasters. Stronger DRM is a critical facet of our climate policies, as reflected for instance in our National Adaptation Plan, in which we have set a target of 6 million citizens that should be covered by the enhanced early warning systems by 2030. Yet, our DRM institutions – national and provincial disaster committees, National Disaster Center (NDC) –face severe financial constraints and capacity limitations. Our strategic DRM policy documents, which include the National Disaster Risk Reduction Framework (NDRRF) 2017-2030 and the National Disaster Risk Management Plan, have started tackling these issues, but more is needed to effectively enhance the resilience of our country and its people to natural disasters, especially given the expected increase in the frequency of severe climate-related hazards. Under the RSF arrangement, we will (i) consolidate and further develop our existing data on climate hazard mapping and make it more accessible to infrastructure developers and managers; (ii) modernize our aging legal and regulatory framework for DRM; and (iii) adopt a more strategic approach to disaster risk financing, by taking into consideration mechanisms other than the usual budget channels.

- Our data on natural hazard mapping is currently fragmented and partial. It can hence only imperfectly support decision-making in areas such as infrastructure development and maintenance, urban and rural development, or the setup of early warning systems. We will task a single coordinating agency, through a NEC decision, to manage a stock take of current hazard mapping systems and provide access to existing hazard mapping data on a public website (**proposed RM**). This data will include information on the types of climate hazards and on how and where they might affect PNG's provinces and areas, in order to assess the risks and vulnerabilities of the population, infrastructure assets, sectors, businesses and local communities. We will carry out the stock take with the support of relevant agencies responsible for the monitoring and assessment of natural hazards, in consultation with the UNDP. Going forward, we are committed to expanding the contents and improving the quality of the information. In particular, we will find options to streamline the operation of the National Multi-Hazard Early Warning System (NMEWS) to ensure decision support tools and associated products are made accessible.

- While it has been under review for about a decade, our legal and institutional framework for DRM, set out in the 1984 Disaster Management Act (DMA), is now overdue for an update. We will prepare and submit to Parliament a set of amendments to the DMA which would address its most critical shortcomings (**proposed RM**). The amendments will at least tackle the three following areas: (i) roles and responsibilities in DRM will be specified; (ii) *ex ante* DRM actions, including early warning systems, will be codified and developed in consultation with respective technical agencies responsible for the monitoring and assessment of natural hazards; and (iii) a DRM institutional structure for local levels (below provincial) will be established. We will draft the amendments with the technical advice of UNDP; in addition, the amendments will be shared with the IMF for review before being submitted to Parliament.

- Given the insufficient character of the budget resources available for DRM activities and for disaster risk response, it is important for PNG to seek alternative financing channels, including from the private sector and from civil society organizations, to effectively enhance resilience to climate-related disasters. After an in-depth technical diagnostic, the Treasury, in coordination with NDC and CCDA, will develop a Disaster Risk Financing Strategy, with the technical support of the IMF, and formally adopt and publish it (**proposed RM**). The strategy will take into consideration all kinds of risk transfer and risk retention instruments to enhance the predictability and responsiveness of DRM resources.

44. We are committed to integrating climate change considerations into our public investment management (PIM) practices to improve the resilience of our infrastructure. To help effectively preserve lives and livelihoods from the consequences of climate change, we need to take into account climate change considerations, as well as consideration of other natural hazards in our public investment decisions, both for new projects and for existing assets. Under the RSF arrangement, we will: (i) enforce a screening process to ensure that new projects financed by our budget are climate-resilient; (ii) incorporate climate change considerations into our PIM regulations; and (iii) take climate change into account in the costing of maintenance needs for major infrastructure.

- In order to enhance the resilience of our new infrastructure, we will institute requirements for climate-related disaster risk screening for major projects: (i) with the technical support of the IMF, the Department of National Planning and Monitoring (DNPM) will develop a methodology for climate-related disaster risk screening for public investment projects; (ii) we will require to include screening assessments in a new section of the project identification documents; and (iii) beginning with the budget circular for the 2026 Budget,[1] we will require that departments undertake that screening for any new major capital project (costing PGK 10 million or more) proposed in their budget submissions (**proposed RM**). In due course, it will pave the way for

[1] We will share the draft budget circular with the IMF by the due date to allow the assessment of the RM. We are committed to maintain the requirements under this RM in the final budget circular to be issued to departments and agencies later in the year.

applying climate adaptation and mitigation considerations to all capital projects, including for those undertaken by SOEs.

- We will enhance the governance and resilience of our infrastructure by strengthening our PIM regulatory framework and taking climate change into account throughout the life cycle of public investment projects. The DNPM, jointly with Treasury and CCDA, and with the technical support of the IMF, will develop and adopt PIM regulations to govern the whole capital project cycle (including but not limited to planning, appraisal, selection, routine and capital maintenance) and incorporate climate change considerations (**proposed RM**). Based on this work, we will sharpen our existing Public Investment Program (PIP) Management Guidelines to make them more climate-aware.

- In recent years, the Department of Works and Highways (DoWH) has been developing maintenance standards and costing methodologies for road and bridge assets and launching efforts to carry out disaster risk assessments for national roads. Building on these initiatives, with the support of the World Bank and the Asian Development Bank (ADB), the DoWH will pilot the incorporation of climate change considerations in maintenance standards and costing methodologies for national roads (**proposed RM**). This could pave the way for the DoWH to further develop these standards and methodologies for provincial roads as well as for other infrastructure assets, such as bridges. The DoWH is also committed to integrate information on the vulnerability of assets to disasters in the Road Asset Management System (RAMS), based on the ongoing disaster risk assessments. The good practices developed by the DoWH could serve as a model for other sectoral departments and agencies involved in infrastructure management.

45. We will continue to strengthen the climate information architecture—a prerequisite to catalyze climate finance. The Inclusive Green Finance Policy (IGFP) project is one of the first steps taken by the BPNG with the help of development partners to accelerate the transition to an inclusive green financial sector. In line with the IGFP, BPNG is currently developing the technical screening criteria for the inclusive and green taxonomy. Relatedly, BPNG launched the Green Finance Center (GFC) to coordinate green finance initiatives. Under the RSF arrangement, we will: (i) operationalize the inclusive and green taxonomy; and (ii) improve the coordination and data collection across government agencies related to climate investment projects.

- BPNG will develop and formalize supervisory guidelines to commercial banks (i.e., banks) on mandatory reporting requirements in line with the taxonomy along with implementation timelines (**proposed RM**). Through the implementation timelines, we will require banks to submit their internal roadmaps towards regulatory compliance within 12 months from the effective date of application of the guidelines, followed by progress reports every 6 months. The guidelines will focus on all on-balance sheet exposures related to the 3 priority sectors with technical screening criteria completed by mid-2025 (the three priority sectors will be specified at later reviews). It will be implemented on banks representing at least 90 percent of total banking sector assets. BPNG and the GFC, with assistance from development partners (including International Finance Corporation (IFC), the French Development Agency (AFD) and the Asian Development Bank (ADB)), will provide training to BPNG staff and commercial banks to successfully collect data related to all on-balance sheet exposures (including SOE exposures). These capacity development efforts will commence in mid-2025 once the technical screening criteria for at least one priority sector is developed.

- We will also build a repository of climate projects in PNG that will improve the signaling power to investors. We will empower the GFC through a memorandum of understanding between the BPNG and the Treasury to strengthen coordination with other relevant institutions (e.g., CCDA, Department of National Planning and Monitoring, National Statistics Office, and others) and collect data on climate investments from other institutions. With the assistance of development partners (Global Green Growth Institute (GGGI), United Nations Capital Development Fund (UNCDF)), we will subsequently develop the centralized national database of climate projects—ideally containing both public and private investments and going back to the year PNG signed the Paris agreement in 2015 (**proposed RM**). We will start populating the database with major projects first. This database will contain information including but not limited to the name and description of the investment project, sector, purpose (mitigation, adaptation), funding source, funding type (concessional loan, non-concessional loan, grant, equity), commitment amount and date, disbursement amount and date, project currency, expected completion date, project status (e.g., completed/stalled), and repayment conditions such as the grace period and the interest rate. Once the database is set up, the BPNG and GFC will coordinate with other agencies to preserve the data quality with the help of development partners and keep this data repository up to date.

- In due time, we will explore options to catalyze additional climate finance by improving the cooperation between the authorities, the IMF, multilateral development banks, and other development partners.

46. To support our international climate commitments, we aim to enhance our mitigation efforts by incentivizing low carbon-growth activities while protecting the most vulnerable. Under the RSF arrangement, we will: (i) modify the taxation of fuels to shift the burden on those with higher carbon content without increasing taxes for the more vulnerable; and (ii) review the taxation in the logging sector in order to identify ways to better incentivize activities to be more protective of our forest resources while taking the livelihoods of our local communities into account.

- In PNG, liquid fuels are used for transportation, power generation (particularly diesel), as well as industrial activities. To start incentivizing the use of less carbon-intensive liquid fuels, we will submit amendments to the Excise Tariff Act to parliament to shift the tax burden towards fuels with higher carbon content, such as heavy fuels and oils (**proposed RM**). In the design of this measure, to be carried out in consultation with the Fund and in line with recommendations from IMF technical assistance, we will ensure to protect the most vulnerable.

- Commercial logging is the main cause of forest degradation, which has contributed to increasing our net carbon emissions. We are committed to reducing unsustainable logging activities, which put our ecosystems and biodiversity at risk. Yet, the logging sector remains vital to the livelihoods of our people in rural areas. We will carry out a comprehensive review of the current regime of existing royalties, taxes, and levies in the logging sector, with the technical support of ADB. The review will allow us to identify appropriate tax policy and administration reforms to support our forest protection objectives while preserving the livelihoods of our local populations (**proposed RM**). Once finalized, we are committed to implementing key proposals from the review, in consultation with the IMF.

F. Financing Strategy and Program Monitoring

Financing Strategy

47. The ECF/EFF arrangements help us address an immediate balance of payments needs, allowing us to engage with our other development partners and build the buffers needed to support a more flexible exchange rate system. The Fund arrangements are a critical component in reinforcing the Government's commitment to sound macroeconomic policies and needed structural reforms. These policies lay the ground for durable and sustainable growth and allow us to reduce poverty and strengthen inclusion. Further, the arrangements are an important signal to our development partners that PNG is on the path to macro-financial sustainability. More directly, financing from the Fund arrangements allow us to address near-term balance of payments needs, allowing the Government to build and maintain the international reserve buffer needed to safely address the demand-supply mismatches in the FX market in line with our roadmap for monetary policy and exchange rate reform; and allow for an ambitious but non-disruptive fiscal consolidation path that preserves needed social spending. Meanwhile, the requested RSF will help us address prospective balance of payment needs arising from climate change.

48. We are targeting an international gross reserves level of US$3.4 billion (5.1 months of imports) by end-2026. Our net international reserves (NIR), that is reserves net of IMF financing outstanding, closed September 2024 at US$2.8 billion, about US$0.6 billion above the indicative target floor; we are now aiming at a US$2.05 billion target for end-2024 (QPC). This level of reserves considers the continued reduction of the backlog of FX orders and the expected external payment obligations. We estimate our external financing needs for the year to be US$868 million, of which 29 percent will come from disbursements under the Fund ECF/EFF arrangements, which will continue to be channeled toward budget support. Moreover, given our updated financing plan for 2024, we are requesting modifying the adjustor to the NIR floor, conditional on external financing disbursements (see Para. 16 in the Technical Memorandum of Understanding).

Program Monitoring

49. Test dates and program reviews. In line with the normal practice for disbursements under a blended ECF/EFF arrangement, we follow a 6-monthly review cycle based on quantitative performance criteria outlined in Table 1. The fourth, fifth, sixth and seventh reviews of the ECF/EFF arrangements will take place on or after March 18, 2025, September 18, 2025, March 18, 2026 and September 18, 2026. Accordingly, our next four test dates would be December 31, 2024, June 30, 2025, December 31, 2025 and June 30, 2026 respectively. Further, we propose the inclusion of additional indicative targets for the interim periods (assessment dates of September 30, 2024, and

March 31, 2025) to help guide program implementation. Reviews under the RSF arrangement are to take place concurrently with the reviews under the ECF/EFF arrangements. The first, second, third and fourth reviews of the RSF arrangement will hence take place at the time of the fourth, fifth, sixth and seventh reviews of the ECF/EFF arrangements, respectively. Tables 1 and 2 outline our proposed quantitative performance criteria, indicative targets and structural benchmarks for the next 12 months; while Table 3 provides the matrix of reform measures to be implemented over the full duration of the RSF arrangement. Detailed definitions of the quantitative performance criteria and indicative targets are provided in the attached Technical Memorandum of Understanding. Like the ECF/EFF, the RSF disbursements will be used as budget support; a memorandum of understanding between the Treasury and the BPNG will be signed to that effect.

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

Table 1. Papua New Guinea: Quantitative Performance Criteria and Indicative Targets, 2024-2025

(In millions of Kina unless otherwise specified)

	2024								2025					
	June			**September**			**December**		**March**		**June**		**September**	**December**
	Test date			Indicative target			Test date		Indicative target		Test date		Indicative target	Test date
	Approved	**Outcome**		Approved	**Outcome**		Approved	**Proposed revision**	Approved	**Proposed revision**	Approved	**Proposed revision**	**Proposed**	**Proposed**
A. Quantitative performance criteria 1/														
Fiscal deficit of the government (ceiling, cumulative from the beginning of the year)	3,014	**1,923**	met	4,132	**2,274**	met	4,810	**4,810**	1,159	**1,159**	2,203	**2,203**	3,020	3,516
Stock of net international reserves of the BPNG (floor, US$ millions)	2,350	**2,825**	met	2,200	**2,817**	met	2,050	**2,050**	1,988	**1,988**	1,925	**1,925**	1,863	1,800
BPNG's gross credit to government (ceiling)	2,400	**2,114**	met	2,400	**2,126**	met	2,400	**2,400**	2,400	**2,400**	2,400	**2,400**	2,400	2,400
B. Continuous quantitative performance criteria (ceilings) 2/														
New external payment arrears of the government (ceiling, US$ millions)	0	**0**	met	0	**0**	met	0	**0**	0	**0**	0	**0**	0	0
Present value of new external debt contracted or guaranteed by the government (ceiling, US$ millions) 3/	1,072	**0**	met	1,072	**0**	met	1,072	**1,425**	530	**810**	530	**810**	810	810
C. Indicative Targets														
Non-resource tax revenue of the government (floor, cumulative from the beginning of the year)	5,871	**6,706**	met	10,714	**10,702**	not met	14,677	**14,677**	3,268	**3,268**	6,537	**6,537**	12,173	16,676
New domestic payment arrears of the government (ceiling)	0	**0**	met	0	**0**	met	0	**0**	0	**0**	0	**0**	0	0
Social and other priority spending (floor, cumulative from the beginning of the year) 4/	1,575	**3,091**	met	2,958	**4,742**	met	4,059	**4,059**	550	**550**	1,650	**1,650**	4,008	5,500
Stock of unmet import-related FX payments in the orderbook (ceiling)	125	**0**	met	100	**0**	met	75	**75**	50	**50**	25	**25**	0	0

Sources: Papua New Guinea authorities and Fund staff estimates.

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

2/ Quantitative performance criteria listed under B. are effective continuously from program approval.

3/ Annual for 2024 and 2025.

4/ Comprises government spending on health, education and law and order (both capital and operating expenses).

Table 2. Papua New Guinea: Structural Benchmarks
(December 2024—December 2025)

No.	Measure	Purpose/Macro-criticality	Implementation date
		Budget repair	
1.	Introduce amendments to the Income Tax Act to the Parliament aimed at strengthening revenue mobilization, streamlining its operation and ensuring consistency with the Tax Administration Act.	To strengthen domestic revenue mobilization.	End-December 2024
2.	Submit to the Parliament amendments to the Internal Revenue Commission Act 2014, in consultation with the IMF, to establish a Board for IRC's oversight.	To strengthen IRC's governance.	End-December 2024
3.	Finalize the data cleansing exercise in the National Capital District (NCD) by: (i) categorizing all remaining unattached officers; (ii) correcting anomalies in employee data (demographics) for economic and administrative sectors; and (iii) listing NID registration numbers in the AscenderPay IT system for all public servants; and produce a report on the outcome of the exercise, shared with the IMF.	To ensure integrity of payroll information and enhance payroll management.	End-March 2025
4.	Formulate a sequenced implementation plan for a Treasury Single Account (TSA).	To modernize cash management practices and reduce excess government cash in the banking system.	End-December 2025
5.	Create an interface between our debt monitoring system (Meridian) and the IFMS to automate the transfer and reconciliation of debt information.	To strengthen expenditure controls and enhance the reliability of reporting.	End-September 2025
		Governance and operations of the BPNG	
6.	Ensure that the access to central bank bill auctions is limited to reserve-maintaining and supervised financial institutions.	To preserve the intermediation function of reserve-maintaining financial institutions and support the development of the financial sector.	End-January 2025
7.	Complement the main 7-day CBB instrument with the issuance of a 28-day CBB every four weeks to reserve-maintaining and supervised financial institutions, in competitive auctions, with BPNG as price taker.	To enhance liquidity management and address structural excess liquidity.	End-February 2025
8.	Develop liquidity forecasting framework and liquidity monitoring tables, allowing to prepare weekly forecasts for the Monetary Operations Committee.	To enhance liquidity monitoring and forecasting.	End-July 2025
		Governance and Anti-corruption Framework	
9.	Appoint the ICAC's oversight committee, as mandated by Part XII of the ICAC law.	To ensure sound governance and independent oversight over ICAC's operations.	End-March 2025
10.	Adopt memoranda of understanding between ICAC and at least four of the following agencies involved in the fight against corruption: (i) the BPNG's Financial Analysis and Supervision Unit (FASU), (ii) the Police, (iii) the Ombudsman's Office, (iv) the Auditor General's Office; and (v) the Public Prosecutor's Office.	To facilitate collaboration and exchange of information between anti-corruption agencies.	End-December 2024
11.	Adopt a dividend policy at the National Executive Council applicable to all three state holding companies - Kumul Consolidated Holdings, Kumul Petroleum and Kumul Minerals.	To strengthen financial governance of state-owned enterprises and entities and improve predictability of dividend payments to the budget.	End-February 2025

Table 3. Papua New Guinea: Proposed RSF Reform Measures and Timeline for Completion

Main Pillars	Key Challenge	Reform Measure	Diagnostic Reference	Capacity Development Input	RM Expected Outcome	Target Date
1. Enhancing Disaster Risk Management (DRM) Efforts	Knowledge about climate-related hazards is fragmented and incomplete, hampering the effectiveness of DRM efforts.	**RM1.** Set up a public website providing access to existing hazard mapping data, based on a stock take of current hazard mapping systems. The agency in charge of coordinating this exercise should be formally appointed. [NDC]	CPIMA, WB1	UNDP	Information and mapping about climate-related hazards is improved, allowing to raise stronger awareness and develop more effective *ex ante* DRM policies.	September 18, 2025.
	The legal framework for DRM is outdated.	**RM2.** Submit to parliament amendments to the 1984 Disaster Management Act to update and modernize the DRM framework. Amendments will clarify roles and responsibilities in DRM, codify and develop *ex ante* DRM actions, set up a DRM structure below provincial levels and more broadly align the DRM framework with more modern international practice [NDC]	CPD	UNDP	DRM practices are appropriately codified and better aligned with international practice.	March 18, 2026.
	There is no strategic understanding of disaster risk financing, and existing modalities are insufficient to cover disaster response needs.	**RM3.** Develop, adopt, and publish a comprehensive disaster risk financing strategy aimed at improving financial resilience against disasters. [Treasury, NDC, CCDA]	CPD, CPIMA, WB1	IMF (FAD)	Disaster response needs are better covered, with a stronger strategic view of the different modalities for disaster risk financing.	September 18, 2026.
2. Integrating Climate Considerations Into Public Investment Management Processes	Resilience to climate-related natural disasters is not taken into account when new investment projects are appraised and selected for inclusion in the budget.	**RM4.** Develop a methodology for climate-related disaster risk screening and incorporate a requirement in the budget circular (starting from the draft circular for the 2026 Budget) to undertake that screening for any new proposed major capital project (i.e. above PGK 10 million), by including the assessment in the project identification documents [DNPM, Treasury, and sectoral institutions]	CPIMA	IMF (FAD)	Climate resilience is more systematically taken into account as part of investment planning and budgeting.	March 18, 2025.
	Climate change is not embedded in public investment management regulations, which are also incomplete.	**RM5.** Develop and adopt Public Investment Management regulations to incorporate climate change considerations into the capital project cycle (including planning, appraisal, selection, maintenance). [DNPM, Treasury, CCDA]	CPIMA	IMF (FAD)	Climate change is formally taken into account at each step of the investment project cycle.	March 18, 2026.
	The few existing maintenance standards and methodologies do not consider climate risks.	**RM6.** Pilot the incorporation of climate change considerations in maintenance standards and costing applied to national roads. [DoWH]	CPIMA	WB, ADB	Climate change is taken into account to assess road maintenance needs and costs, paving the way for a standardized approach across sectors.	March 18, 2026.

Table 3. Papua New Guinea: Proposed RSF Reform Measures and Timeline for Completion (concluded)

3. Supporting The Development Of Green And Inclusive Finance	The taxonomy of green and inclusive finance activities is not operational and lacks concrete guidelines for implementation by financial institutions.	**RM7.** Develop and formalize supervisory guidelines to financial institutions (FIs) on mandatory regulatory reporting of FIs' exposures aligned with the taxonomy, along with implementation timelines as specified in the MEFP (¶45). The guidelines will focus on all exposures related to 3 priority sectors with technical screening criteria completed by mid-2025. It will be implemented on banks representing at least 90 percent of total banking sector assets. [BPNG, GFC]	Inclusive Green Finance Policy	IFC, AFD, ADB	A supervisory guidance note on collecting and reporting climate-related loan activities along with implementation timeline will help strengthen the climate information architecture landscape.	March 18, 2026.
	There is no comprehensive database of ongoing climate projects and funding sources.	**RM8.** (i) Empower the Green Finance Center (GFC) with the authority to collect data on climate investments from other institutions (government agencies and commercial banks) through a memorandum of understanding between BPNG and Treasury. (ii) Develop a centralized national database with climate mitigation and adaptation projects in line with the updated NDC and the taxonomy (MEFP ¶45). [BPNG, GFC]	Inclusive Green Finance Policy and CPIMA	GGGI, UNCDF	The centralized database on climate projects and funding sources will improve project identification and investor confidence.	September 18, 2026.
4. Supporting mitigation policies	Fuel taxation does not take the carbon content of fuels into account.	**RM9.** Submit amendments to the Excise Tariff Act to parliament to shift the tax burden towards fuels with higher carbon content [Treasury]	CPD	IMF (FAD)	The rebalancing of taxation towards more carbon-intensive fuels will help to incentivize more efficient fuel use.	March 18, 2025.
	The logging industry is at the source of significant forest degradation, with limited lasting benefits to local communities.	**RM10.** Carry out a comprehensive review of existing royalties, taxes, and levies in the logging sector to help identify appropriate tax policy measures to ensure a balance between mitigation objectives and the socio-economic footprint of the sector. [Treasury, IRC, Customs, PNGFA]	CPD	ADB	Implementation of the findings of this review could help discourage unsustainable logging activities and incentivize forest protection.	September 18, 2025.

Legend for diagnostic references
CPD: Climate Policy Diagnostic (2024), Fiscal Affairs Department, IMF.
CPIMA: Climate Public Investment Management Assessment (2024), Fiscal Affairs Department, IMF.
WB1: Emergency Preparedness and Response in PNG (2021), Diagnostic report, World Bank.

Attachment II. Technical Memorandum of Understanding

This technical memorandum of understanding (TMU) sets out the understanding between the Papua New Guinea authorities and the International Monetary Fund (IMF) regarding the definitions of the performance criteria (PCs) and the indicative targets to be applied under the Extended Credit Facility/Extended Fund Facility Program (ECF/EFF) starting March 2023, and should be read in conjunction with the Memorandum of Economic and Financial Policies (MEFP) that accompanies this TMU. It specifies the quantitative performance criteria and indicative targets on which the implementation of the ECF/EFF will be monitored in the period following completion of the Third Review and until December 2025. In addition, the TMU reaffirms the terms and timeframe for transmitting the data that will enable IMF staff to assess program implementation and performance.

A. Assessment Criteria: Quantitative Targets

1. **Assessment Criteria have been set as of test dates and performance under the program is assessed against those quantitative targets, unless otherwise specified.** Specifically, the Fourth Review will assess the end-December 2024 test date, the Fifth Review will assess the end-June 2025 test date, and the Sixth Review will assess the end-December 2025 test date. Indicative assessment dates have also been set at end-March 2025 and end-September 2025. The assessment criteria are specified in Table 1 of the MEFP.

Definitions

2. **For the purposes of the ECF/EFF program, government is defined as the central government of the Independent State of Papua New Guinea.** Central government is defined as the component of general government covered by the national budget and encompasses fundamental activities of the national executive, legislative and judiciary powers. It includes Extra Budgetary Units which have individual budgets not fully covered by the national budget, in particular trust accounts. The budgetary central government is defined as the central government excluding extra budgetary units. The general government represents: the national and provincial governments; the Autonomous Bougainville government; and the commercial and statutory authorities.

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

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

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

4. Debt is defined for the program purposes in accordance with Executive Board Decision No. 15688-(14/107), Point 8(a) and (b), as published on the IMF website (https://www.imf.org/external/SelectedDecisions/Description.aspx?decision=15688-(14/107)). The term "debt" will be understood to mean all current, i.e. not contingent liabilities, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take various forms; the primary ones being as follows:

- loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

- suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments after the date on which the goods are delivered or services are provided; and

- leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of these guidelines, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

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

5. For the purposes of this ECF/EFF program, debt shall include borrowing by, or that receives guarantees from, the central government and the Bank of Papua New Guinea (BPNG) as set out in paragraph 9. Accumulation of liabilities for the purposes of conducting monetary policy by the BPNG, including the issuance of securities or other marketable instruments such as central bank bills or notes, shall be excluded from the definition of debt.

6. External debt of the government is defined as a debt denominated, or requiring payment, in a currency other than the Kina. For program purposes, a debt and/or guarantee is considered contracted when all conditions for its coming into effect have been met, including approval by the Treasury. The contracting of credit lines with no predetermined disbursements schedules or with multiple disbursements will be also considered as contracting of debt. For the purposes of the program, the definition of "debt" is set forth in point No. 9 of the "Guidelines on Performance

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

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

Quantitative Performance Criteria (QPCs)

Ceiling on the Cumulative Fiscal Deficit of the Budgetary Central Government

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

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

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

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

- **External liabilities** will include debt securities outstanding; and loans received from lenders not resident of PNG; and any other liabilities that meet the definition of external debt as set out in paragraph 6 above.

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

Floor on the Stock of Net International Reserves of BPNG

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

12. **Gross foreign assets are defined as the sum of:**

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

13. Gross foreign assets exclude:

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

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

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

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

Table 2. Papua New Guinea: Adjustor Due to Shortfall in Program Loan and Grant Disbursements by Multilateral Creditors and Bilateral Partners

(In millions of US dollars)

	2024
	December
Expected disbursements of program loans and grants by multilaterals and bilateral partners 1/	608

1/ Cumulative from January 1, 2024.

Ceiling on BPNG's Gross Credit to Government

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

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

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

Continuous Performance Criteria (PCs)

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

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

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

21. For the purposes of program monitoring, a continuous ceiling in PV terms will apply to the contracting or guaranteeing of new external debt by the Government or the BPNG. The ceiling applies to debt contracted or guaranteed for which value has not yet been received, including private debt for which official guarantees have been extended. Subject to the adjustor in paragraph 22 below, the ceiling until end-December 2024 is US$1,425 million, and, as from Jan 1, 2025, is US$810 million.

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

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

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

Ceiling on New External Payment Arrears of the Government

25. For the purposes of the PC on the non-accumulation of new external payment arrears, **external payment arrears of the government** are defined as external debt obligations of the government that have not been paid when due in accordance with the relevant contractual terms (taking into account any contractual grace periods).

B. Other Assessment Criteria

26. During the program period, PNG will not:

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

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

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

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

C. Assessment Criteria: Indicative Targets

27. Indicative targets have been set for the test dates (end-December 2024, end-June 2025, and end-December 2025). Indicative targets serve to assess progress under the program but are not binding quantitative criteria under which performance under the program is evaluated. The targets are specified in Table 1 of the MEFP. Targets have also been set at the indicative assessment dates (end-March 2025, end-September 2025). For the calculation, monitoring and evaluation of the indicative targets, the following definitions will be used.

Definitions and Calculations

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

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

- Domestic debt remains unpaid for more than 30 days after the due date stipulated in the agreement between the parties (creditor/debtor).
- Wages or pensions remain unpaid 90 days after their due date.

30. The stock of unmet import-related FX orders is defined as the total amount of FX orders related to imports of goods compliant with BPNG's published FX regulations and submitted by authorized foreign exchange dealers to BPNG's orderbook more than two months prior to the assessment date.

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

D. Program Monitoring and Data Reporting

32. To facilitate the monitoring of program implementation, the Papua New Guinea authorities shall maintain a Program Monitoring Committee. The committee will be composed of senior officials from the Treasury and the Bank of Papua New Guinea, and shall be responsible for monitoring the performance of the program, informing the Fund regularly, and transmitting the supporting materials necessary for the evaluation of benchmarks. With respect to continuous QTs, the authorities will report any non-observance to the IMF promptly.

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

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

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

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

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

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

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

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

Data Description	Type of Data	Reporting Agency	Reporting Frequency	Reporting Lag
Monthly update report on the implementation of the monetary and FX reform roadmap.	Monetary / FX	BPNG	Monthly	1 month
Financial Soundness Indicators (aggregate and by bank).	Financial	BPNG	Quarterly	1 month
Lending activity of banks (by sector).	Financial	BPNG	Monthly	1 month
Daily exchange rates: (i) interbank rate (midpoint rate); (ii) weighted average rate for bank/client transactions; (iii) high/low rates for bank/client transactions.	FX	BPNG	Monthly	1 week
Results of the 7-day (and 28-day, when implemented) central bank bill auction (date, bidders, quantities, bids placed, outcome by bidder).	Monetary / FX	BPNG	Monthly	1 week
Results of the weekly FX auction (date, bidders, quantities, rates, bids placed, outcome by bidder).	FX	BPNG	Monthly	1 week
External Sector				
Balance of Payments data in the reporting template provided by IMF staff.	BOP	BPNG	Quarterly	3 months
Import and export data, by sectors.	BOP	BPNG	Quarterly	3 months
Net international reserves, including reserve assets/liabilities by original currency.	BOP	BPNG	Monthly	1 month
Foreign exchange flow data (by type of flow).	BOP	BPNG	Monthly	1 month
Banks' purchases and sales of foreign currency (specified by bank, sector and by type of flow).	FX	BPNG	Monthly	1 month
List of the foreign exchange allocation pipeline (orderbook) with information about length of time needed to fulfill order and type of orders (especially imports of goods and import-related intercompany loans).	FX	BPNG	Monthly	1 month

INTERNATIONAL MONETARY FUND

PAPUA NEW GUINEA

November 21, 2024

THIRD REVIEWS UNDER EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, REQUESTS FOR EXTENSION, REPHASING OF ACCESS, AND MODIFICATION OF QUANTITATIVE PERFORMANCE CRITERIA, AND REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—DEBT SUSTAINABILITY ANALYSIS

Approved By
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Prepared by the staff of the International Monetary Fund (IMF) and the International Development Association (IDA)

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

Papua New Guinea (PNG) remains at high risk of debt distress under the Low-Income Country Debt Sustainability Framework (LIC-DSF), with weak debt-carrying capacity.[1,2] *External debt risks are elevated due to liquidity risk associated with the bullet payment on the existing Eurobond in 2028 and higher official bilateral and multilateral debt service payments in the first half of the forecast horizon. Domestic debt vulnerabilities are also elevated contributing to persistent breaches of the PV of overall debt to GDP ratio. The planned fiscal consolidation helps address debt vulnerabilities, while the risks of external and overall public debt distress are assessed as high. Over the medium-term, public debt would trend downward, while the breaches of liquidity indicators can be addressed by debt management operations and enhanced revenue generation. The Debt Sustainability Analysis (DSA) suggests that PNG is susceptible to trade-related and contingent liabilities shocks, as well as climate change, underscoring downside risks to the public debt outlook. Fiscal*

[1] This DSA has been prepared jointly by the International Monetary Fund and the World Bank, in accordance with the LIC-DSF, approved by the Executive Boards of the IMF and the International Development Association.

[2] The Composite Indicator (CI) of 2.57 is based on the latest available information—April 2024 IMF World Economic Outlook (WEO) and the World Bank's Country Policy and Institutional Assessment (CPIA) for 2022 indicating a "weak" capacity to carry debt.

consolidation, structural reforms fostering private sector growth, and addressing climate risks would lower the risk of public debt distress and support sustainability. Conditional on the implementation of the authorities' planned fiscal consolidation and conservative financing strategies, public debt is assessed as sustainable.

PUBLIC SECTOR DEBT COVERAGE

1. The coverage of public debt in the DSA is unchanged from the previous (November 2023) DSA (Text Table 1). The segments of the public sector captured in the DSA include the central government, state and local government, and guarantees to other entities in the public and private sector, including parts of state-owned enterprises (SOEs). However, debt numbers do not fully capture implicit government guaranteed debts of SOEs and unfunded superannuation liabilities relating to pensions.[3] For the purposes of this DSA, the coverage of public sector debt remains unchanged from the last DSA, which was prepared in November 2023 in the context of the IMF ECF/EFF program first reviews. Given continued difficulties in capturing and assessing SOE risks, a contingent liabilities stress test is included in this DSA, assuming 9 percent of GDP as SOE debt is not captured in official public debt data (the stock of explicit government guarantees is around 1.3 percent of GDP), and 3 percent of GDP for other elements of general government (mainly unfunded superannuation liabilities related to pensions, which are projected to be 2.1 percent of GDP in 2023). Separately, according to the World Bank's PPP database, the PPP capital stock in PNG is zero and, therefore, no default shock is triggered. A financial market shock of 5 percent is added, reflecting the average fiscal cost of financial crisis in low-income countries. With these assumptions, the cumulative shock in the contingent liabilities stress test amounts to 17 percent of GDP—compared to 7 percent under default assumptions. Currency is used to define external debt, while there is no material difference with the currency demonination criteria in PNG.

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

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

		Default	Used for the analysis	Reasons for deviations from the default settings
1	The country's coverage of public debt	The central, state, and local governments, government-guaranteed debt		
2	Other elements of the general government not captured in 1.	0 percent of GDP	3	Unfunded superannuation liabilities relating to pensions
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	9	SOE sovereign guarantee in dispute
4	PPP	35 percent of PPP stock	0	Default used
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5	Default used
	Total (2+3+4+5) (in percent of GDP)		17	

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

[3] Comprehensive data on the debt stock of SOEs in PNG is not publicly available. The ADB have been supporting the authorities with a three-year program (2020-2023) aiming to reform the governance of state-owned enterprises, increase their financial transparency and ensure financial sustainability. This included providing advice on the overarching policy and legal framework for SOEs, leading to the adoption of an amended Kumul Consolidated Holdings Act in 2021.

BACKGROUND ON DEBT

2. Between 2017 and 2023, the stock of public debt in PNG increased from around 24 billion Kina to almost 58 billion Kina. This was mainly due to external loans (which account for almost two thirds of the increase), while the creditor composition has been gradually shifting away from commercial loans towards official multilateral and bilateral financing (Text Table 2). This contributes to the improvement of debt sustainability indicators in the medium term. Public and Publicly Guaranteed (PPG) external debt figures used for this DSA are consistent with the information in the World Bank's International Debt Statistics.

Text Table 2. Papua New Guinea: Decomposition of Public Debt Service by Creditors, 2023-2025 1/

	Debt Stock (end of period) 2023			Debt Service					
				2023	2024	2025	2023	2024	2025
	(In US$ million)	*(Percent total debt)*	*(Percent GDP) 5/*	*(In US$ million)*			*(Percent GDP)*		
Total	15925	100	54	5157	5087	5138	17	16	16
External	7954	50	27	484	637	947	2	2	3
Multilateral creditors 2/, 3/	4086	26	14	225	277	411	1	1	1
IMF	886	6	3	6	27	69	0	0	0
World Bank	569	4	2	31	30	49	0	0	0
ADB	2515	16	8	181	213	283	1	1	1
Other Multilaterals	116	1	0	7	8	10	0	0	0
Bilateral Creditors 2/	3296	21	11	204	312	488	1	1	1
Paris Club	2137	13	7	92	182	357	0	1	1
o/w: Australia	1713	11	6	77	169	321	0	1	1
Non-Paris Club	1159	7	4	112	129	131	0	0	0
o/w: China EXIM	1159	7	4	90	97	100	0	0	0
Bonds	500	3	2	41	42	42	0	0	0
Commercial creditors	72	0	0	14	7	7	0	0	0
Other international creditors	0	0	0	0	0	0	0	0	0
Domestic	7971	50	27	4673	4449	4191	15	14	13
Held by residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Held by non-residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
T-Bills	3794	24	13	3830	3661	3361	12	12	10
Bonds	3396	21	11	685	641	674	2	2	2
Loans	782	5	3	158	148	155	1	0	0
Memo items:									
Collateralized debt 2/, 4/	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Contingent liabilities	669	4	2	n/a	n/a	n/a	n/a	n/a	n/a
Nominal GDP	30729								

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

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

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

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

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

3. The IMF's general allocation of Special Drawing Rights (SDRs) became effective in August 2021, with SDR 252 million (US$ 357 million, or 95.7 percent of quota) allocated to PNG. The authorities used the full SDR allocation to support the 2021 budget. They used the SDR allocation to replace costly financing, which has helped reduce the budget deficit. For the purpose of this DSA, the SDR allocation is included in total public debt while the associated debt service for the amount outstanding is also reflected.

4. The IMF arrangements approved by the Board in March 2023 continues to support PNG's reform agenda, helping protect the vulnerable and fostering inclusive growth, in line with the authorities' Poverty and Growth Reduction Strategy. These facilities total SDR 684.3 million under the IMF's Extended Credit Facility (ECF) and the Extended Fund Facility (EFF) arrangements. The program builds on progress under the past SMPs (2020/21 and 2021/22), focusing on addressing structural impediments to growth and poverty reduction. Program objectives focus on (i) strengthening debt sustainability through a multi-year fiscal consolidation program while making room to meet critical social and development needs, (ii) enhancing the legal and operational framework of the BPNG to alleviate FX shortages and transition to a market-clearing exchange rate, and (iii) build on improvements to governance and the anti-corruption framework.

5. A new 24-month Resilience and Sustainability Facility (RSF) will support authorities' plans to address climate-related risks and associated investment costs in PNG. The disbursements associated with the RSF would reach SDR 197.4 million (75 percent of quota) by the end of 2026. The reform measures associated to RSF aim at (i) supporting climate mitigation policies, (ii) enhancing disaster risk management efforts, (iii) integrating climate considerations into public investment management processes, and (iv) supporting the development of green and inclusive finance.

6. PNG is an IDA blend country, with total IDA20 allocation at SDR 173.7 million. PNG is currently eligible to access the Regional Window, the Crisis Response Windows, the Private Sector Window, and the SUW-SMLS after the country recovered a set-aside in place during FY24 due to unmet FY23 PPAs (see below). The IDA decision to graduate a country to IBRD-only status is based on an assessment of the country's macroeconomic prospects, risk of debt distress, vulnerability to shocks, institutional constraints, and levels of poverty and social indicators.

7. The IDA Sustainable Development Finance Policy (SDFP) supports PNG in addressing key debt vulnerabilities. As part of the SDFP, PNG is subject to debt-related Performance and Policy Actions (PPAs). For fiscal year 2022, these were aimed at limiting non-concessional borrowing and operationalizing the 2021 State Guarantee Policy, both of which were satisfactorily implemented. PNG had two SDFP PPAs for fiscal year 2023: (i) a US$ 1 billion PPG external borrowing limit for new non-concessional long-term contractual obligations, which applies continuously throughout FY23, and (ii) to improve management of fiscal risks by both approving a revised on-lending policy (which introduces credit risks assessments and strengthens enforcement arrangements, recording and reporting requirements) and refraining from any new on-lending until the revised policy is adopted. PNG missed both actions in FY23, so the country was subject to a set-aside of 20 percent from its FY24 IDA country allocation. In June 2024, the country satisfactorily met four PPAs, including additional ones due to non-performance in the previous period, and recovered the set-aside at the start of FY25.

BACKGROUND ON MACROECONOMIC FORECASTS

8. **Growth in 2024 is expected to be driven by a rebound in the resource sector** (Text Table 3). After a strong recovery in 2022, real GDP growth softened to 3.0 percent in 2023, driven by a contraction in the resource sector (-1.6 percent), while growth in the non-resource sector remained resilient (4.7 percent). Real growth likely bounced back in 2024 to 4.5 percent, driven by a rebound in resource sector activities as the Porgera gold mine resumed production, along with resilient growth in the non-resource sector. Economic growth would remain dynamic in 2025 (4.6 percent), reflecting strong growth in the resource sector as gold production reaches full capacity, and resilient growth in the non-resource sector, supported by a more competitive agricultural sector and improved access to foreign exchange. Following elevated inflation in 2022 (5.3 percent), average inflation decelerated to 2.3 percent in 2023, as global commodity prices moderated and supply chain constraints eased. For 2024, average inflation is expected to moderate to 1.3 percent mostly due to a steep drop of betel nut prices, which has more than offset the passthrough of the Kina depreciation to domestic prices. The current account balance is estimated to have moderated to 12.7 percent of GDP in 2023, from 14.4 percent of GDP in 2022.[4] In 2023, goods exports volumes are estimated to have contracted by almost 12 percent compared to 2022, as commodity prices retreated from recent peaks, while imports shrank at a similar pace. Higher commodity prices and some improvements in quantities underpin assumptions for an increase in nominal exports in 2024, while imports remain sluggish.

Text Table 3. Papua New Guinea: DSA Vintages: Macroeconomic and Fiscal Assumptions, 2024-2029

	DSA Vintage	2024	2025	2026	2027-2029
Real GDP growth y/y (in percent)	**2024 ECF/EFF third rev.**	**4.5**	**4.6**	**3.5**	**3.1**
	2023 ECF/EFF first rev.	5.0	3.1	3.1	3.1
Resource sector	2024 ECF/EFF third rev.	5.0	3.8	1.5	0.2
	2023 ECF/EFF first rev.	6.3	0.1	0.1	0.2
Non-resource sector	2024 ECF/EFF third rev.	4.4	4.8	4.2	4.1
	2023 ECF/EFF first rev.	4.6	4.1	4.1	4.0
Inflation, annual average (consumer prices, percent)	**2024 ECF/EFF third rev.**	**1.3**	**5.1**	**4.3**	**4.4**
	2023 ECF/EFF first rev.	4.0	4.8	4.8	4.5
Current account balance (percent of GDP)	**2024 ECF/EFF third rev.**	**9.8**	**11.8**	**11.1**	**9.2**
	2023 ECF/EFF first rev.	16.3	16.7	14.8	10.8
Growth of exports of G&S (US$, in percent)	2024 ECF/EFF third rev.	4.1	11.8	4.1	3.2
	2023 ECF/EFF first rev.	4.8	3.6	2.9	3.0
Growth of imports of G&S (US$, in percent)	2024 ECF/EFF third rev.	-9.2	5.3	3.8	3.3
	2023 ECF/EFF first rev.	0.5	3.1	2.7	3.2
Primary balance (percent of GDP)	**2024 ECF/EFF third rev.**	**-1.5**	**0.0**	**1.3**	**2.6**
	2023 ECF/EFF first rev.	-1.5	-0.2	0.9	2.2
Government revenues (excluding grants, percent of GDP)	2024 ECF/EFF third rev.	16.9	17.6	17.9	18.7
	2023 ECF/EFF first rev.	16.4	17.1	17.4	18.4

Source: PNG authorities; IMF staff estimates and projections.

[4] Previously published current account data in PNG overstated the balance due to long-standing challenges in classifying large income account outflows, including external debt service payments related to resource projects, under the financial account rather than the current account. Fund technical assistance (TA) in external sector statistics aimed at correcting this misclassification, while work is ongoing on improving quality of data. In this regard, authorities have initiated an inter-agency working group on external sector statistics including representatives from the NSO, Treasury Department, PNG Customs Service and the BPNG to secure efficient inter-agency external sector data provision and to improve the consistency of external sector statistics with other official statistics.

9. The medium-term baseline macroeconomic forecasts are broadly unchanged from the November 2023 DSA (Text Table 3). In line with previous DSAs, the long-term potential real growth rate is estimated at around 3 percent,[5] while inflation is projected to reach an annual average of 4.4 percent in the medium term. Resilient global demand for PNG's export goods would persist over the medium-term, so the current account surplus is forecast to remain strong —albeit moderating from recent highs, to around 10 percent of GDP.

10. The medium term baseline also assumes rapid progress on fiscal consolidation, as envisaged by the authorities. This is appropriate to strengthen debt sustainability and build a fiscal buffer. While continued primary deficits are anticipated in the short term (Text Tables 3 and 4), the projection builds in a significant fiscal consolidation, which would result in primary surpluses as early as 2026. This is consistent with the authorities' plans to meet the requirements of the Fiscal Responsibility Act, which specifies government debt should be maintained at no more than 40 percent of GDP over the long term. To contain expenditure growth, the authorities are committed to reducing current expenditure as a share of non-resource GDP, and to enhancing expenditure efficiency through payroll management improvements, stronger expenditure controls, and more efficient cash management practices. Meanwhile, revenue mobilization is a critical component of the planned consolidation in a context of elevated development needs. Revenue is expected reach 18.7 percent of GDP in 2024, and would increase towards 19 percent of GDP in the medium term, mainly based on the implementation of the Medium-Term Revenue Strategy (MTRS). The latter describes the authorities' revenue reform priorities, and include introducing amendments to the Income Tax Act (ITA), streamlining and gradually phasing out the Infrastructure Tax Credit scheme, and narrowing the scope of the exemptions in Special Economic Zones. From 2025 onward, the authorities also project an increase in tax revenues from the PNG LNG project as tax exemptions expire. Further, the authorities see scope for significantly higher dividends after loan amortization for the project is completed but this is not yet included in the baseline in full. Achieving a balanced budget by 2027 would lower the risks from significant debt service obligations on external borrowing coming due in 2028.

11. The main downside risks to the baseline projection include: natural disasters (including those related to climate change), lower global growth, and social or political instability. PNG is vulnerable to natural disasters (earthquakes and volcanic eruptions) as well as the impact of climate change (flooding, landslides, droughts, and rising sea level).[6] Lower global growth would likely impact PNG through lower commodity prices, with adverse consequences for the balance of payments and budget through lower resource revenue. Further political and social instability could hinder economic growth by undermining the implementation of the reforms and deteriorating the business environment. With limited sources of financing available in an adverse scenario, and continued pressing social and development needs, the room for significant policy adjustment is relatively limited. Engagement with the IMF through the ECF/EFF and RSF arrangements provides an important anchor for the authorities to advance their

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[5] Expected new resource projects are not included in the (authorities' or staff's) baseline, explaining the low resource sector growth in the medium term. Higher growth in the resource sector due to new projects is therefore a major upside risk to the baseline projection.

[6] Authorities are working closely with partners to develop climate mitigation and adaptation programs through the Green Climate Fund; develop green financing standards through the BPNG; and fund the UN Climate and Biodiversity Trust Fund in our 2023 budget. Moreover, there is a continued and growing need for support in this area.

reform agenda, including for climate adaptation and mitigation. If growth deteriorated significantly compared to the projections, further debt buildup may be needed to finance the budget and maintain government services. Upside risks also exist and include higher-than-expected commodity prices, or start of any of several major projects, including Papua LNG, P'nyang LNG or the Wafi Golpu mining, which are not yet in the baseline scenario.

Text Table 4. Papua New Guinea: Summary of Fiscal Operations, 2024-2026

	2024	2025	2026
Revenue and grants (percent of GDP)	**18.7**	**19.3**	**19.6**
Taxes	15.7	15.7	16.0
Grants	1.8	1.7	1.7
Other revenue	1.2	1.8	1.9
Expenditure (percent of GDP)	**22.6**	**21.9**	**21.0**
Expense	18.6	18.1	17.4
Compensation of employees	6.0	5.8	5.5
Use of goods and services	5.9	5.5	5.3
Interest	2.5	2.6	2.6
Other	4.2	4.2	4.0
Net acquisition of nonfinancial assets	4.1	3.8	3.5
	0.0	0.0	0.0
Gross operating balance	2.6	3.8	4.8
Net lending (+)/borrowing (-)	-3.9	-2.6	-1.3
Primary balance (percent of GDP)	**-1.5**	**0.0**	**1.3**

Source: PNG authorities; IMF staff estimates and projections.

12. The LIC DSA's realism tools indicate that the government's primary balance adjustment is moderately ambitious. At about 3.0 percent, the 2024-2026 cumulative adjustment of the primary balance is within the top 20 percent of historical experiences, relative to peers. Much of this adjustment would take place during 2025-2026 (Figure 4). Meanwhile, baseline growth projection is somewhat higher than the implied path consistent with the range fiscal multipliers, due to supply side improvements in the mineral sector and low historical correlation between fiscal consolidation and non-resource growth.[7]

13. Financing mix: For domestic financing, the DSA assumes that over the forecast horizon, the composition of T-bills and T-bonds is broadly balanced, approaching 50 percent of new issuances corresponding to T-bills by the end of the decade.[8] For the near-term, the DSA considers all existing commitments. Although the profile of domestic debt, with a high concentration in short-term Treasury bills, raises concerns over rollover risks, short-term liquidity risks and reliance on domestic financing fall throughout the projection horizon because the level of newly issued debt falls markedly as fiscal deficits are

[7] The reopening of the Porgera gold mine would contribute to strong growth in the resource sector.
[8] In 2024, domestic financing has relied largely on T-bills (close to 90% of issuances year-to-date), exceeding initial plans, due to the significant tightening of liquidity conditions, particularly affecting T-bond issuances. In this environment, the authorities are auctioning longer-dated bonds at market-determined yields and relying on more external financing than planned earlier in the year.

replaced by surpluses, particularly after 2027. While the trend in the projection period remains constant, continued development of the domestic debt market is necessary to increase liquidity and transition towards greater reliance upon domestic financing sources, including a shift to longer maturities.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TEST

14. PNG's debt carrying capacity is assessed as weak. According to the April 2024 World Economic Outlook and the 2022 Country Policy and Institutional Assessment (CPIA), PNG's Composite Indicator (CI) is 2.57, indicating weak debt-carrying capacity (Text Table 5).[9] Hence, the applicable thresholds are 30 percent for the present value (PV) of external debt-to-GDP ratio; 140 percent for the PV of the external debt-to-exports ratio; 10 percent for the external debt service-to-exports ratio; 14 percent for the external debt service-to-revenue ratio; and 35 percent for the PV of public debt-to GDP ratio, respectively.

Text Table 5. Papua New Guinea: Composite Indicator and Applicable Thresholds

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	2.865	1.10	43%
Real growth rate (in percent)	2.719	2.622	0.07	3%
Import coverage of reserves (in percent)	4.052	42.748	1.73	67%
Import coverage of reserves^2 (in percent)	-3.990	18.274	-0.73	-28%
Remittances (in percent)	2.022	0.003	0.00	0%
World economic growth (in percent)	13.520	2.909	0.39	15%
CI Score			2.57	100%
CI rating			Weak	

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Weak	Weak	Weak	Weak
	2.57	2.58	2.56

[9] At 2.57 PNG's CI is close to the weak/medium threshold of 2.69.

Applicable thresholds

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	140
GDP	30
Debt service in % of	
Exports	10
Revenue	14

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	35

15. **Scenario stress tests**: As indicated in the section on public debt coverage, a contingent liabilities stress test is included to account for SOE debt not captured in official public debt data.[10] Further, given the size and importance of PNG's resource sector (with a share of commodities in total exports of goods and services of 96 percent), a commodity price shock is included in the DSA. Considering the high price volatility over the past few years, the fuel price shock is set at 35 percent (slightly larger than the default shock), and the shock to non-fuel commodity prices is set to 25 percent—with 20 percent for base metals and precious metals, and 35 percent for agricultural commodities other than grain (price shocks to grain like wheat, corn, and soybeans, are not relevant for PNG and, therefore, not included in the stress test). Mitigating factors are included as well, and calibrated close to default values (2 percent for fuel and 39 percent for non-fuel). PNG's single outstanding Eurobond (maturing in 2028) activates the market financing module. Finally, given PNG's vulnerability to climate change, and in the context of the RSF arrangement request, the tailored natural disasters stress test was also conducted (see the *Climate Change Risks* section for a discussion of the results).

DEBT SUSTAINABILITY

A. External Debt Sustainability Analysis

16. **Under the baseline scenario, the debt-service to revenue indicator is projected to breach its threshold.** A relatively large breach in 2028 arises due to the bullet payment for the US$500 million Eurobond, which was issued in 2018. Marginal breaches also arise between 2025 and 2031 as the debt-service-to-revenue ratio surpasses 14, the relevant threshold value, due to higher official bilateral and multilateral debt service payments given larger share of FX debt and a weaker Kina relative to the previous DSA. This liquidity indicator falls below the threshold in the second part of the forecast horizon. In the baseline scenario, the present value of debt-to-GDP ratio as well as debt-to-exports and debt service-to-

[10] During the 2021 SMP, the authorities initiated an SOE reform program to reduce the backlog of audited annual financial statements and to strengthen SOE oversight and improve understanding of fiscal risks. This program includes a detailed review of SOE debt and government guarantees and is also expected to improve the reporting of public debt.

export ratios remain below their respective thresholds over the entire projection horizon. The solvency indicators, which remain below their respective thresholds, are on a downwards trend from 2026 onwards.

17. Stress tests point to vulnerabilities in PNG's external debt dynamics particularly with respect to exports shocks, which would cause threshold breaches for all four external debt indicators. Changes in policy and the structure of the economy manifests in some differences between the historical and the baseline scenarios. Particularly, the historical scenario shows a faster fiscal consolidation than the baseline. Meanwhile, the natural disasters tailored stress test only leads to marginal and short-lived breaches in the PV of debt-to-GDP ratio, while breaches in the debt service-to-revenue ratio are only resolved by the beginning of the next decade. The market financing risk module indicates a moderate risk of heightened liquidity pressures primarily due to elevated GFNs. However, a heightened market stress event would not have a substantial impact of debt burden indicators as few future external debt disbursements are projected on commercial terms (Figure 5). PNG's relatively elevated sovereign spreads (which have nonetheless remained containted since the ECF/EFF approval) likely reflect the perceived risks due to the country's characteristics (small and undiversified export base, small revenue base, elevated political uncertainty, vulnerability to shocks).

18. Although residuals remain relatively large, the current DSA shows an improvement to the assessment of debt dynamics with smaller residuals (Table 1 and Figure 3). With support of Fund TA, updates to BOP data addressed some issues that led to overestimating the residuals, such as long-standing challenges in classifying large income account outflows, including external debt service payments related to resource projects, under the financial account rather than the current account. Some data quality issues persist, which likely continue to drive positive residuals from external financial flows which persist into the projection period as a consistent accounting framework is used.

B. Public Sector Debt Sustainability Analysis

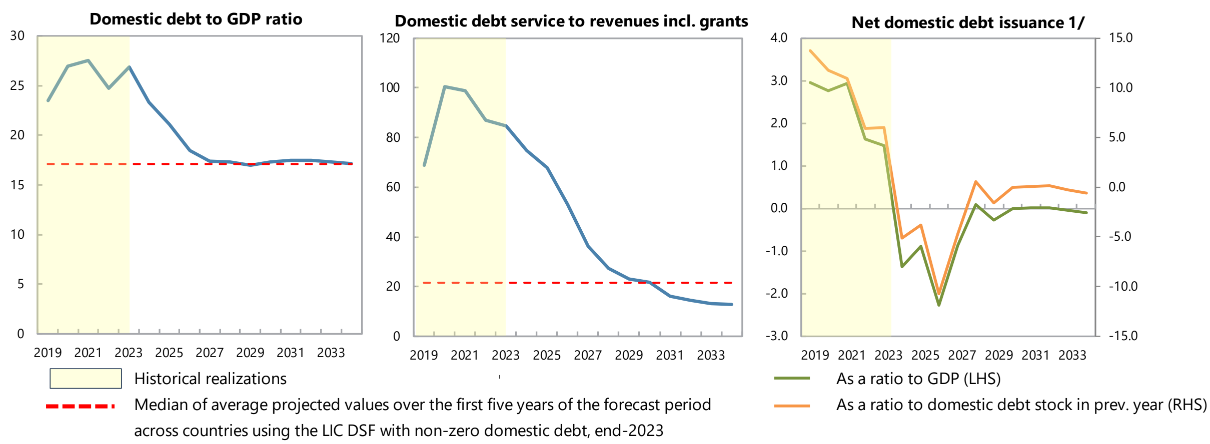
19. Public debt PV ratios increased substantially in recent years, and are expected to moderate in coming years from close to 52 percent of GDP recorded last year. Amid the recent global shocks, there was a large increase in domestic debt and related debt service, which contribute to the elevated overall debt burden and debt service indicators (Figure 2). Starting from this level means that the public debt sustainability indicator is in breach of the threshold for countries with weak debt-carrying capacity (that is, 35 percent of GDP) during the remainder of the decade. Under the baseline scenario, the public debt-to-GDP ratio is on a downward trajectory and will fall towards 50 percent of GDP by 2025 and approach the 40 percent of GDP legal limit by the end of this decade. This downward trend in the public debt-to-GDP ratio arises through stronger real GDP growth and smaller fiscal deficits relative to the past 5 years, as the authorities' fiscal consolidation efforts persist (Figure 3).

20. The high concentration of domestic debt in short-term bills and an undiversified base of creditors, highlights rollover risks. Half of the public domestic debt is held by the banking sector, illustrating PNG's high bank-sovereign nexus. At end-2023, commercial banks held about 13 percent of GDP of T-bills and T-bonds. In line with the high concentration of the banking sector in PNG —four commercial banks, with one bank accounting for roughly two thirds of the total financial system assets—

the largest bank, with which many government agencies keep their deposit accounts, held 58 percent of all government securities at end-2023. The rest of public domestic debt is mostly held by superannuation (pension) funds. Lastly, the central bank has been holding a stable and limited portfolio of government securities (1.7 percent of GDP at end-2023), which is capped under the IMF's ECF/EFF arrangement (quantitative performance criterion).

21. **Diversifying the issuance structure by issuing longer term Treasury bonds would lower these risks, make debt service costs more predictable, and help with financial deepening effort** (Figure 2).[11] In addition, the fall in the level of short-term debt, from an estimated peak just above PGK15 bn in 2024, is a mitigating factor for liquidity risks. The residuals from unidentified debt creating flows recorded in 2021, are not anticipated to be repeated (Figure 3) as the government has taken several steps to improve recording and reporting of debt.[12] The fall in domestic debt comes amid an ambitious fiscal consolidation in the baseline under the program, such that domestic public debt-to-GDP and its related service are expected to fall, approaching the median of LICs over the next decade (Text Table 6).

Text Table 6. Papua New Guinea: Indicators of Public Domestic Debt 2019-2034
(Percent)



Borrowing Assumptions (average over 10-year projection)	Value
Shares in new domestic debt issuance	
Medium and long-term	53%
Short-term	47%
Borrowing terms	
Domestic MLT debt	
Avg. real interest rate on new borrowing	4.0%
Avg. maturity (incl. grace period)	6
Avg. grace period	3
Domestic short-term debt	
Avg. real interest rate	3.3%

Sources: Country authorities; and staff estimates and projections.
1/ Net domestic debt issuance is an estimate based on the calculated public gross financing need net of gross external financing, drawdown of assets, other adjustments and domestic debt amortization. It excludes short-term debt that was issued and matured within the calendar year.

[11] Authorities are assessing available options, including debt-for-nature swap operations, with analysis still at an exploratory stage.

[12] This includes the state guarantee policy initiated during the 2021 SMP.

22. Stress tests point to several vulnerabilities for public debt (Figure 2 and Table 4). As for external debt, the most extreme shock impacting the PV of public debt is a shock to exports. Under this shock scenario, the PV of public debt-to-GDP ratio peaks at 71.6 percent of GDP in 2026, more than double the 35 percent benchmark and substantially above the starting level of 51.3 percent of GDP in 2024, before gradually decreasing over the next years. The tailored stress test for the combined contingent liability shock causes a deterioration in public debt metrics, felt most acutely through the total public debt service-to-revenue ratio. This analysis suggests contingent liabilities represent an important source of vulnerabilities in PNG. The trajectory of the PV of the public debt-to-revenue ratio is impacted most by the exports shock, reflecting the strong reliance upon commodity exports within PNG.

CLIMATE CHANGE RISKS

23. PNG is one of the most vulnerable nations to climate change and to climate-related natural disaster shocks, especially floods, droughts, landslides, and rising sea levels. Climate change is expected to have significant adverse effects on PNG's lives and livelihoods, with severe risks to food and water security, ecosystems, and critical infrastructure. These risks apply both to urban populations in coastal areas, exposed to a rise in sea levels and more intense weather events, as well as rural, remote populations, exposed to lower agricultural crop yields and heightened risks of landslides. These consequences would affect PNG's economic output by hindering overall growth and employment, contributing to food insecurity, putting livelihoods at risk, and increasing inflationary pressures from staples. In the absence of additional adaptation efforts and under a high emissions scenario, climate change could trigger a loss of PNG's annual GDP of 4 percent by 2050 and 15 percent by 2100.[13] Additionally, public spending needs would be pressured by reconstruction costs and cash transfers to support affected populations, while the disruptions of economic activities may also lead to decreased fiscal revenues. The resulting worsening in fiscal balances would lead to higher public debt. Finally, lower agricultural production would translate in diminished exports, while reconstruction efforts boost imports of intermediate inputs, both leading to worsening balance of payments outcomes.

24. A natural disaster stress test for PNG illustrates the risks to debt sustainability of an extreme climate event. The tailored natural disaster stress test is inspired by historical events which have impacted growth, caused losses and damages, and required public expenditure for recovery and reconstruction. However, given the expectation that such events will likely continue to grow in intensity and frequency, the calibration assumes a shock to GDP growth equal to the expected impact on GDP by 2050 in a high emissions scenario. Hence, the calibration employs the standard 10 percent of GDP one-off shock to external PPG debt-GDP ratio, a one-off 4 percentage points decline in real GDP growth, and the standard 3.5 percentage points shock on exports growth. Results illustrate the limited scope for meeting additional financing needs in the stress scenario without putting pressure on external debt liquidity indicators in a protracted manner (Table 3) and jeopardizing overall public debt sustainability (Table 4). This highlights the

[13] Asian Development Bank (2013), The Economics of Climate Change in the Pacific. This report shows the impact of climate change on PNG's economy is expected to be broadly neutral until at least 2030 because of initial gains in the agriculture sector from warming conditions.

need to expedite institutional reforms and capacity building to improve public investment efficiency, reduce leakages, and promote private contributions to address climate-related investments.

25. Additionally, an alternative scenario was calibrated to assess the effects of climate change and adaptation policies on debt sustainability over the long term. It is important to note that there is considerable uncertainty on the global emissions trajectory as well as long-term climate and macroeconomic modeling. Notwithstanding this limitation, the scenario is based on the simulations of the effects of climate change on macroeconomic variables, while factoring the effects of adaptation policies (including the investment spending associated with these policies and their positive effects). The analysis takes as a starting point the baseline scenario, adding onto it ADB's pessimistic (higher emissions) scenario (see ¶23) which considers a permanent GDP level loss compared to the baseline case of no climate change of 4 percent by 2050. The alternative scenario assumes that annual adaptation needs (by 2030) to upgrade and retrofit existing infrastructure and to invest in coastal protection are financed with public resources (with a mix of 55 percent external and 45 percent domestic financing). The cost of these additional investments is estimated at 2 percent of GDP every year for the next 10 years.[14] These investments are assumed to mitigate the impact on the GDP level by 2040 to a loss of only 2 percent. Additionally, fiscal revenues decrease relative to the baseline in proportion to lower activity, exports fall by ½ of the estimated losses of agricultural production according to ADB (*i.e.*, a fall of 5 percent relative to the baseline each year), while the bulk of adaptation investments relies on imported goods (e.g. construction materials) given PNG's production matrix.

26. In the climate alternative scenario, external and domestic debt indicators edge higher relative to the baseline scenario (Figures 1 and 2). Relative to the baseline, external public debt solvency indicators increase, with PV of debt-to-GDP breaching the relevant threshold, before returning to a downward path. Moreover, the debt service-to-revenue ratio shows protracted breaches extending through the first 10 years of the forecast horizon, when the bulk of adaptation investments occur. Regarding overall public debt, the solvency indicator would fail to return below the 35 percent of GDP threshold during the relevant forecast horizon, highlighting the risks to debt sustainability arising from climate change when adaptation policies are fully financed with public resources. In addition, we note that if a shock of magnitude similar to the one calibrated for the natural disasters stress test were to occur under this alternative scenario, PNG's public debt would assume an unsustainable path.

27. In spite of the positive spillovers, addressing climate change challenges would put debt sustainability at risk. This means that authorities' should strive to increase the climate responsiveness of existing investment plans while aiming at mobilizing additional, highly concessional, climate financing and private sector solutions supported by market incentives. Availabilty of development partner support is essential to calibrate the envelope of public participation in adaptation efforts consistent with preserving debt sustainability and retaining the public debt risk ratings in PNG. The implementation of reforms anchored in the requested IMF RSF would help in this effort while safeguarding debt sustainability by: (i) supporting climate mitigation policies, (ii) enhancing disaster risk management efforts, (iii) integrating climate considerations into public investment management processes, and (iv) supporting the

[14] IMF (2021), Fiscal Policies to Address Climate Change in Asia and the Pacific.

development of green and inclusive finance. By supporting enhancements in PNG's climate policies, reform measures under the RSF will enhance climate responsiveness of PNG's public investment and accelerate mobilization of private financing and support in this direction.

RISK RATING AND VULNERABILITIES

28. PNG remains at "high" risk of external and overall debt distress. The (mechanical) overall debt distress rating is "high", owing to the multiple breaches of sustainability benchmark under the baseline scenario, as discussed in previous sections. The increase in public debt during the recent external shocks also constitutes a rollover risk that authorities aim to address by improving financing terms (e.g., by issuing longer-term securities). Likewise, the external debt distress rating is unchanged from previous DSAs at high risk, given breaches in the debt service-to-revenue ratio discussed before.

29. Debt service on existing loans, paired with relatively weak revenue generation, are expected to almost double the debt service-to-revenue ratio by 2024. However, as debt service reduces and revenues increase, and barring further shocks to demand growth, the indicator enters a downward trend from this peak.

30. Stress tests show that adverse shocks to exports, commodity prices and contingent liabilities constitute the main risks to public debt sustainability. Further, while the historical scenario indicates that it is possible to reduce external debt from current levels, shrinking overall debt remains challenging, so that reforms, including those already implemented during the recent SMPs and the EFF/ECF, are essential for supporting the sustainability of public finances. Market financing risks continue to be relevant, with the GFN threshold breached, pointing to moderate market financing pressures.

31. Debt dynamics are assessed as sustainable. Public debt is expected to remain elevated in the near-term and to enter a clear downward path over the medium-term. Also, the projected temporary breaches of external liquidity indicators can be mitigated by debt management operations. External debt-to-GDP and debt-to-exports ratios are below their thresholds over the entire projection horizon. Public external and overall debt is judged to be sustainable conditional on the implementation of the authorities plans for further fiscal consolidation and conservative financing strategies (such as substituting costly financing with concessional financing from multilateral and bilateral partners). These plans and strategies are supported by the PV limit on new external borrowing under the Fund's ECF/EFF programs and the non-concessional borrowing ceiling that PNG adheres to under the World Bank's SDFP.[15] This baseline sustainability assessment also relies upon higher future resource revenue as tax exemptions expire from 2026 onwards.

[15] The SDFP ceiling for IDA FY24 is consistent with the CY23 and CY24 ceiling under the IMF ECF/EFF arrangements. The SDFP ceiling for FY25, currently in preparation, will be consistent with the CY24 and CY25 ceilings under the Third Reviews of the ECF/EFF arrangements.

AUTHORITIES' VIEWS

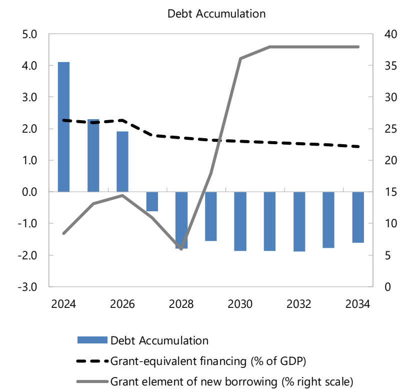
32. The authorities noted the Staff's assessment that PNG remains at high risk of debt distress but remains sustainable under the baseline projection. In discussions, the authorities agreed that large financing requirements to dampen the effects of the COVID-19 pandemic on PNG's economy left their mark on public debt. Additionally, the redemption of the US$ 500 million Eurobond in 2028, issued in 2018, alongside higher interest rates relative to history are key risks. The authorities remain optimistic about their capacity to continue delivering a fiscal consolidation path, which includes improved mining revenues. They also highlighted their intent to continue implementing the strategy of substituting costly financing with concessional financing from multilateral and bilateral partners to improve PNG's debt profile. The authorities noted interest costs of domestic securities have increased and average maturities of new issuances shrunk over the past year as the market adjusted to lower liquidity conditions. They also highlighted the importance of more proactive debt and cash management practices, improved coordination with the central bank, and the implementation of the medium-term revenue strategy as mitigating factors which will reduce risks in the medium-term. The authorities are committed to fiscal consolidation and conservative financing strategies to support the sustainability of PNG's debt going forward.

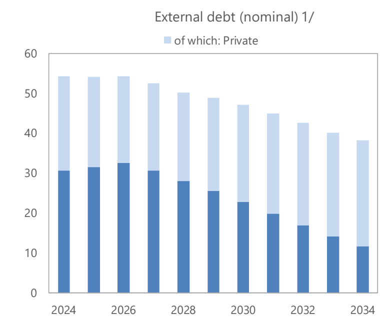
Table 1. Papua New Guinea: External Debt Sustainability Framework, Baseline Scenario, 2021-2044

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
External debt (nominal) 1/	**62.8**	**51.8**	**48.9**	**54.2**	**54.0**	**54.2**	**52.6**	**50.2**	**48.9**	**38.2**	**23.3**	**71.7**	**47.9**
of which: public and publicly guaranteed (PPG)	**25.0**	**23.5**	**26.8**	**30.6**	**31.4**	**32.5**	**30.6**	**28.0**	**25.5**	**11.6**	**1.9**	**15.4**	**24.0**
Change in external debt	-7.0	-11.0	-2.9	5.3	-0.1	0.2	-1.7	-2.3	-1.4	-2.0	-0.9		
Identified net debt-creating flows	**-24.9**	**-29.4**	**-11.9**	**-14.1**	**-16.1**	**-14.7**	**-13.5**	**-11.9**	**-11.6**	**-9.5**	**-10.8**	**-18.2**	**-12.1**
Non-interest current account deficit	**-13.9**	**-16.2**	**-14.9**	**-11.4**	**-13.4**	**-12.5**	**-12.5**	**-11.0**	**-10.7**	**-8.5**	**-7.4**	**-15.9**	**-10.8**
Deficit in balance of goods and services	-17.6	-19.9	-18.0	-21.4	-24.3	-24.5	-24.5	-24.4	-24.3	-21.1	-16.2	**-17.7**	**-23.3**
Exports	42.2	47.0	43.1	43.6	46.7	46.8	46.7	46.6	46.6	41.4	30.6		
Imports	24.6	27.1	25.1	22.2	22.4	22.3	22.2	22.2	22.3	20.3	14.4		
Net current transfers (negative = inflow)	-1.0	-0.4	-0.9	-0.9	-0.8	-0.8	-0.8	-0.7	-0.7	-0.6	-0.3	**-1.0**	**-0.7**
of which: official	-1.7	-1.2	-1.2	-1.2	-1.2	-1.1	-1.1	-1.0	-1.0	-0.8	-0.4		
Other current account flows (negative = net inflow)	4.8	4.2	4.0	10.9	11.8	12.8	12.8	14.1	14.3	13.1	9.1	**2.8**	**13.2**
Net FDI (negative = inflow)	**-6.3**	**-4.0**	**-0.8**	**-2.1**	**-1.9**	**-1.8**	**-1.7**	**-1.5**	**-1.4**	**-1.3**	**-3.5**	**-2.3**	**-1.5**
Endogenous debt dynamics 2/	**-4.7**	**-9.3**	**3.8**	**-0.6**	**-0.8**	**-0.4**	**0.6**	**0.6**	**0.5**	**0.4**	**0.1**		
Contribution from nominal interest rate	1.3	1.7	2.2	1.5	1.6	1.4	2.2	2.2	2.1	1.6	0.9		
Contribution from real GDP growth	0.3	-3.0	-1.6	-2.1	-2.4	-1.8	-1.6	-1.6	-1.5	-1.2	-0.8		
Contribution from price and exchange rate changes	-6.4	-8.0	3.2	...	...	...	...	...	...	...	...		
Residual 3/	**17.9**	**18.4**	**9.0**	**19.3**	**15.9**	**14.9**	**11.9**	**9.6**	**10.2**	**7.5**	**9.8**	**13.8**	**11.1**
of which: exceptional financing	0.0	0.0	-0.6	-0.8	-1.2	-0.7	0.2	0.3	0.3	0.3	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**23.7**	**27.0**	**28.1**	**28.9**	**27.2**	**24.6**	**22.4**	**9.6**	**1.1**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**54.9**	**62.0**	**60.1**	**61.7**	**58.2**	**52.8**	**48.0**	**23.3**	**3.5**		
PPG debt service-to-exports ratio	**4.2**	**2.1**	**3.7**	**4.8**	**5.3**	**6.4**	**6.6**	**9.5**	**6.4**	**5.2**	**1.1**		
PPG debt service-to-revenue ratio	**13.8**	**6.5**	**9.5**	**12.5**	**14.1**	**16.8**	**16.9**	**23.6**	**15.7**	**10.5**	**1.7**		
Gross external financing need (Million of U.S. dollars)	-1616.9	-2218.3	653.1	-2146.8	-1913.9	-2078.6	-911.6	24.6	-570.0	-832.2	-6435.4		
Key macroeconomic assumptions													
Real GDP growth (in percent)	-0.5	5.7	3.0	4.5	4.6	3.5	3.1	3.1	3.1	3.2	3.5	**3.8**	**3.5**
GDP deflator in US dollar terms (change in percent)	10.1	14.7	-5.8	-1.5	-0.2	0.3	0.7	0.2	-0.2	2.9	2.2	**0.3**	**0.9**
Effective interest rate (percent) 4/	2.1	3.3	4.2	3.3	3.1	2.8	4.2	4.2	4.3	4.2	4.0	**3.3**	**3.9**
Growth of exports of G&S (US dollar terms, in percent)	20.3	34.7	-10.8	4.1	11.8	4.1	3.6	3.0	3.0	2.8	3.4	**10.2**	**4.0**
Growth of imports of G&S (US dollar terms, in percent)	21.9	33.3	-9.9	-9.2	5.3	3.8	3.4	3.3	3.3	3.1	2.6	**0.0**	**2.4**
Grant element of new public sector borrowing (in percent)	...	...	...	8.4	13.1	14.4	10.9	5.9	17.9	37.9	28.5	**...**	**23.5**
Government revenues (excluding grants, in percent of GDP)	12.8	15.3	16.9	16.9	17.6	17.9	18.4	18.8	19.0	20.5	20.5	**15.2**	**19.1**
Aid flows (in Million of US dollars) 5/	1411.5	773.8	991.0	635.0	598.7	741.1	640.1	625.7	618.4	710.8	959.9		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	2.3	2.2	2.3	1.8	1.7	1.6	1.4	1.1	**...**	**1.8**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	31.2	39.4	39.6	62.6	55.8	89.1	98.7	99.2	**...**	**73.6**
Nominal GDP (Million of US dollars)	26,113	31,653	30,729	...	...	...	...	...	...	... ...	...		
Nominal dollar GDP growth	9.5	21.2	-2.9	3.0	4.4	3.9	3.8	3.3	3.0	6.2	5.8	**4.1**	**4.4**
Memorandum items:													
PV of external debt 7/	...	...	45.8	50.6	50.7	50.6	49.1	46.8	45.7	36.2	22.4		
In percent of exports	...	...	106.1	116.0	108.5	108.1	105.2	100.5	98.1	87.4	73.2		
Total external debt service-to-exports ratio	33.2	28.0	41.4	15.3	20.3	17.6	24.8	27.0	22.8	19.7	12.5		
PV of PPG external debt (in Million of US dollars)			7284.2	8548.0	9273.0	9905.2	9693.3	9055.3	8479.0	4734.6	964.3		
(PVt-PVt-1)/GDPt-1 (in percent)				4.1	2.3	1.9	-0.6	-1.8	-1.6	-1.6	-0.3		
Non-interest current account deficit that stabilizes debt ratio	-6.9	-5.2	-12.0	-16.7	-13.2	-12.7	-10.8	-8.6	-9.3	-6.6	-6.5		

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





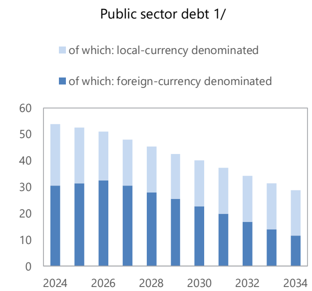
Sources: Country authorities; and staff estimates and projections.
1/ Includes both public and private sector external debt.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
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.

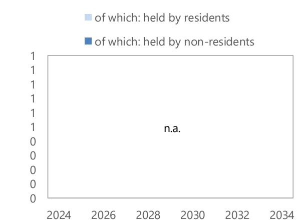
Table 2. Papua New Guinea: Public Sector Debt Sustainability Framework, Baseline Scenario, 2021-2044

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
Public sector debt 1/	52.6	48.2	53.7	53.9	52.6	50.9	48.0	45.3	42.5	28.8	25.1	39.8	42.3
of which: external debt	25.0	23.5	26.8	30.6	31.4	32.5	30.6	28.0	25.5	11.6	1.9	15.4	24.0
Change in public sector debt	3.9	-4.4	5.5	0.2	-1.3	-1.6	-2.9	-2.7	-2.8	-2.6	1.7		
Identified debt-creating flows	0.4	-5.4	4.9	-1.4	-1.9	-2.0	-2.9	-2.9	-2.9	-2.2	1.7	1.6	-2.4
Primary deficit	4.4	2.9	1.8	1.5	0.0	-1.3	-2.5	-2.6	-2.6	-2.0	2.1	2.9	-1.7
Revenue and grants	15.1	16.6	17.9	18.7	19.3	19.6	20.0	20.4	20.6	21.9	21.5	16.9	20.6
of which: grants	2.3	1.3	1.0	1.8	1.7	1.7	1.7	1.6	1.6	1.4	1.0		
Primary (noninterest) expenditure	19.5	19.6	19.8	20.2	19.3	18.3	17.5	17.8	18.0	19.9	23.6	19.8	18.9
Automatic debt dynamics	-4.0	-8.3	3.0	-2.9	-1.9	-0.7	-0.4	-0.3	-0.3	-0.2	-0.4		
Contribution from interest rate/growth differential	-2.7	-6.8	-0.1	-2.9	-1.9	-0.7	-0.4	-0.3	-0.3	-0.2	-0.4		
of which: contribution from average real interest rate	-2.9	-4.0	1.3	-0.6	0.4	1.1	1.1	1.2	1.1	0.8	0.4		
of which: contribution from real GDP growth	0.3	-2.8	-1.4	-2.3	-2.3	-1.8	-1.5	-1.5	-1.4	-1.0	-0.8		
Contribution from real exchange rate depreciation	-1.3	-1.5	3.1	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	3.5	1.0	0.6	1.7	0.6	0.4	0.0	0.2	0.1	-0.4	0.0	1.3	0.1
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	51.4	51.3	49.7	47.7	44.9	42.3	39.7	26.9	24.3		
PV of public debt-to-revenue and grants ratio	...	...	287.0	274.5	257.9	243.1	224.2	207.1	192.2	122.8	113.0		
Debt service-to-revenue and grants ratio 3/	110.6	92.9	93.7	86.0	80.7	68.3	51.6	48.9	37.8	22.6	57.1		
Gross financing need 4/	21.1	18.4	18.6	17.5	15.5	12.1	7.8	7.4	5.1	2.9	14.4		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	-0.5	5.7	3.0	4.5	4.6	3.5	3.1	3.1	3.1	3.2	3.5	3.8	3.5
Average nominal interest rate on external debt (in percent)	2.3	2.6	3.3	4.2	4.5	4.4	4.3	4.3	4.3	4.1	2.5	1.3	4.3
Average real interest rate on domestic debt (in percent)	-9.0	-11.5	5.8	-4.0	-1.3	1.6	2.0	2.4	2.5	2.8	1.6	-0.4	1.9
Real exchange rate depreciation (in percent, + indicates depreciation)	-6.3	-6.6	13.8	...	...	...	...	...	...	...	...	2.4	...
Inflation rate (GDP deflator, in percent)	11.6	15.0	-3.6	5.7	5.4	3.4	3.1	2.8	2.8	2.9	2.2	5.0	3.0
Growth of real primary spending (deflated by GDP deflator, in percent)	-7.1	6.1	3.9	6.7	-0.2	-1.4	-1.4	5.0	4.1	4.4	5.9	1.1	3.6
Primary deficit that stabilizes the debt-to-GDP ratio 5/	0.5	7.3	-3.6	1.2	1.3	0.3	0.4	0.1	0.2	0.6	0.5	1.4	0.5
PV of contingent liabilities (not included in public sector debt)	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0		

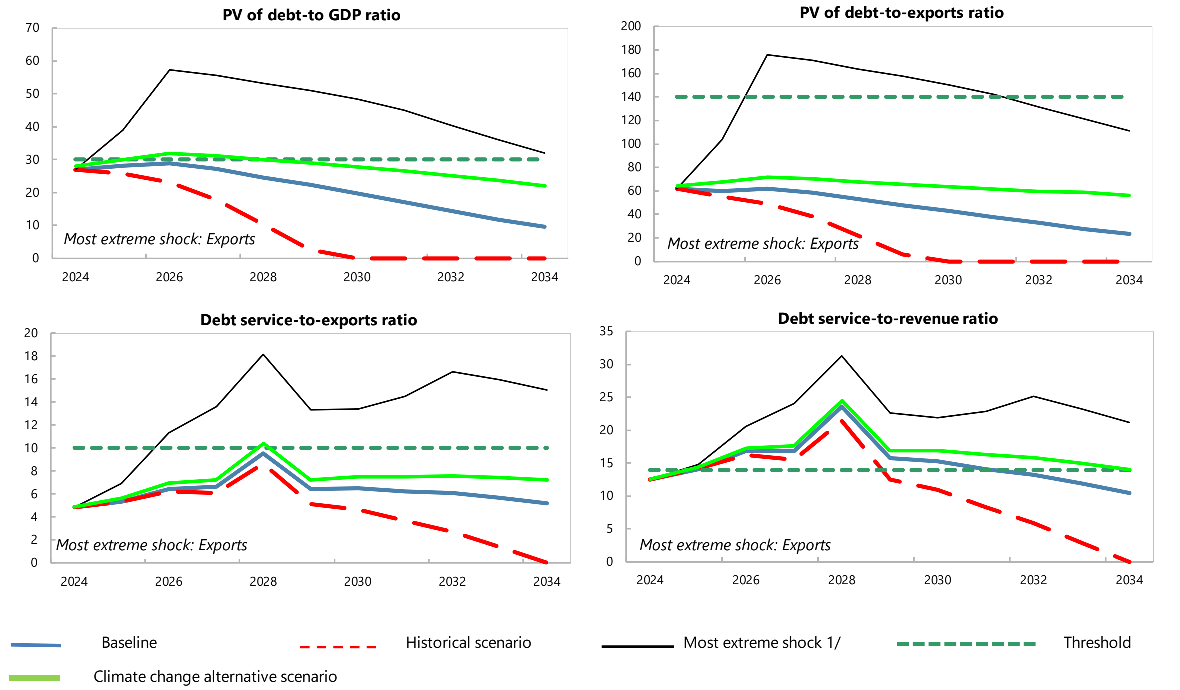
Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**No**





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 Currency-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 stabilizes 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.

Figure 1. Papua New Guinea: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2024-2034



Customization of Default Settings

Tailored Stress	Size	Interactions
Combined CL	Yes	
Natural disaster	No	Yes
Commodity price 2/	Yes	No
Market financing	No	No

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

Borrowing assumptions on additional financing needs resulting from the stress tests*

	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	3.5%	3.5%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	25	25
Avg. grace period	5	5

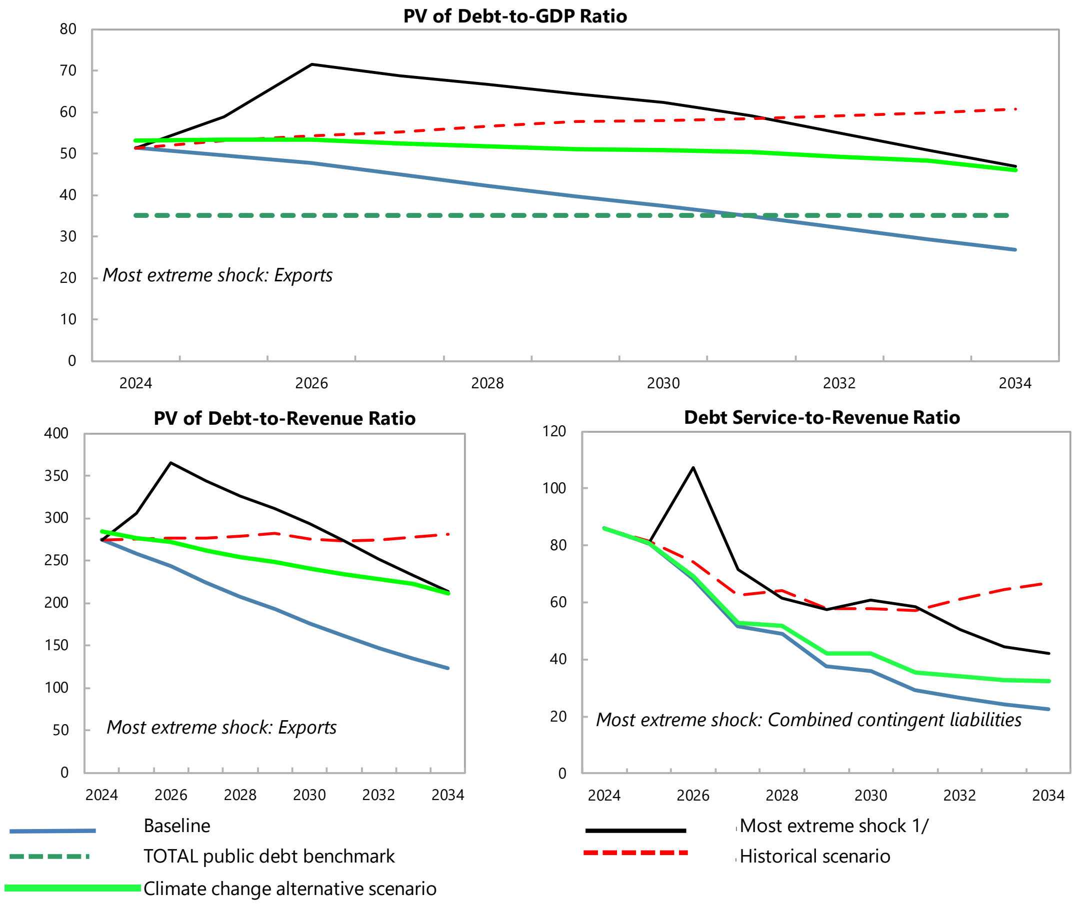
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

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 2034. 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 exterme 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, 2024-2034



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	12%	12%
Domestic medium and long-term	46%	46%
Domestic short-term	41%	41%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	3.5%	3.5%
Avg. maturity (incl. grace period)	25	25
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.0%	4.0%
Avg. maturity (incl. grace period)	6	6
Avg. grace period	3	3
Domestic short-term debt		
Avg. real interest rate	3.3%	3.3%

* 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 2034. 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 exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Papua New Guinea: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2024-2034

(In percent)

	Projections 1/										
	2024	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**
PV of debt-to GDP ratio											
Baseline	27	28	29	27	25	22	20	17	14	12	10
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	27	26	23	18	10	3	0	0	0	0	0
A2. Alternative Scenario : Climate change	28	**30**	**32**	**31**	30	29	28	27	25	24	22
B. Bound Tests											
B1. Real GDP growth	27	**31**	**34**	**32**	29	26	23	20	17	14	11
B2. Primary balance	27	29	**31**	29	27	25	23	20	18	15	13
B3. Exports	27	**39**	**57**	**56**	**53**	**51**	**48**	**45**	**40**	**36**	**32**
B4. Other flows 3/	27	**30**	**33**	**32**	29	27	24	22	19	16	13
B5. Depreciation	27	**36**	**40**	**38**	**35**	**32**	29	25	22	18	15
B6. Combination of B1-B5	27	**37**	**42**	**40**	**37**	**35**	**32**	29	25	22	19
C. Tailored Tests											
C1. Combined contingent liabilities	27	30	**31**	**30**	28	26	24	21	19	17	14
C2. Natural disaster	27	**30**	**32**	**30**	28	26	24	21	19	16	14
C3. Commodity price	27	**36**	**44**	**44**	**43**	**43**	**42**	**40**	**37**	**35**	**32**
C4. Market Financing	27	**31**	**32**	**30**	27	25	22	19	16	13	11
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	62	60	62	58	53	48	43	38	33	28	23
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	62	55	49	38	22	6	0	0	0	0	0
A2. Alternative Scenario : Climate change	64	68	71	70	67	65	63	61	60	59	56
B. Bound Tests											
B1. Real GDP growth	62	60	62	58	53	48	43	38	33	28	23
B2. Primary balance	62	61	66	63	58	54	49	44	40	36	32
B3. Exports	62	103	**176**	**171**	**164**	**157**	**150**	**142**	132	121	111
B4. Other flows 3/	62	65	71	68	62	58	53	47	42	37	32
B5. Depreciation	62	60	68	64	59	54	49	44	39	34	29
B6. Combination of B1-B5	62	83	80	92	86	81	75	68	61	55	48
C. Tailored Tests											
C1. Combined contingent liabilities	62	64	67	64	59	55	51	47	43	39	35
C2. Natural disaster	62	64	67	64	59	55	51	47	42	38	34
C3. Commodity price	62	93	111	107	102	98	93	90	87	83	81
C4. Market Financing	62	60	62	58	53	48	43	38	33	28	23
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	5	5	6	7	10	6	6	6	6	6	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	5	5	6	6	9	5	5	4	3	1	0
A2. Alternative Scenario : Climate change	5	6	7	7	**10**	7	8	7	8	7	7
B. Bound Tests											
B1. Real GDP growth	5	5	6	7	10	6	6	6	6	6	5
B2. Primary balance	5	5	7	7	10	7	7	7	7	6	6
B3. Exports	5	7	**11**	**14**	**18**	**13**	**13**	**14**	**17**	**16**	**15**
B4. Other flows 3/	5	5	7	7	10	7	7	7	7	7	6
B5. Depreciation	5	5	6	7	10	7	7	6	7	6	6
B6. Combination of B1-B5	5	6	8	9	**12**	9	9	9	9	9	8
C. Tailored Tests											
C1. Combined contingent liabilities	5	5	7	7	10	7	7	7	7	6	6
C2. Natural disaster	5	5	7	7	**10**	7	7	7	7	6	6
C3. Commodity price	5	7	9	9	**13**	9	9	9	**10**	10	10
C4. Market Financing	5	5	6	7	10	6	6	6	6	6	5
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	12	**14**	**17**	**17**	**24**	**16**	**15**	**14**	13	12	10
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	12	**14**	**16**	**16**	**21**	12	11	8	6	3	0
A2. Alternative Scenario : Climate change	13	**14**	**17**	**18**	**25**	**17**	**17**	**16**	**16**	**15**	14
B. Bound Tests											
B1. Real GDP growth	12	**15**	**20**	**20**	**28**	**18**	**18**	**16**	**15**	14	12
B2. Primary balance	12	**14**	**17**	**17**	**24**	**16**	**16**	**15**	**14**	13	12
B3. Exports	12	**15**	**21**	**24**	**31**	**23**	**22**	**23**	**25**	**23**	**21**
B4. Other flows 3/	12	**14**	**17**	**18**	**25**	**17**	**16**	**15**	**15**	14	12
B5. Depreciation	12	**18**	**21**	**22**	**31**	**21**	**20**	**19**	**18**	**16**	**15**
B6. Combination of B1-B5	12	**15**	**20**	**21**	**28**	**20**	**19**	**19**	**19**	**17**	**15**
C. Tailored Tests											
C1. Combined contingent liabilities	12	**14**	**17**	**17**	**24**	**16**	**16**	**15**	**15**	13	12
C2. Natural disaster	12	**15**	**18**	**18**	**25**	**17**	**16**	**15**	**15**	14	12
C3. Commodity price	12	**16**	**22**	**24**	**31**	**22**	**21**	**21**	**22**	**20**	**19**
C4. Market Financing	12	**14**	**17**	**17**	**24**	**16**	**15**	**14**	13	12	10
Threshold	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Includes official and private transfers and FDI.

Table 4. Papua New Guinea: Sensitivity Analysis for Key Indicators of Public Debt, 2024-2034

(In percent)

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
PV of Debt-to-GDP Ratio											
Baseline	**51**	**50**	**48**	**45**	**42**	**40**	**37**	35	32	29	27
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	**51**	**53**	**54**	**55**	**57**	**58**	**58**	**58**	**59**	**60**	**61**
A2. Alternative Scenario : Climate change	**53**	**53**	**53**	**52**	**52**	**51**	**51**	**50**	**49**	**48**	**46**
B. Bound Tests											
B1. Real GDP growth	**51**	**56**	**60**	**60**	**60**	**60**	**60**	**61**	**61**	**61**	**61**
B2. Primary balance	**51**	**54**	**59**	**56**	**54**	**51**	**49**	**47**	**44**	**41**	**39**
B3. Exports	**51**	**59**	**72**	**69**	**67**	**64**	**62**	**59**	**55**	**51**	**47**
B4. Other flows 3/	**51**	**52**	**52**	**49**	**47**	**44**	**42**	**39**	**36**	33	31
B5. Depreciation	**51**	**54**	**51**	**47**	**44**	**40**	**37**	33	29	25	22
B6. Combination of B1-B5	**51**	**52**	**56**	**54**	**52**	**50**	**48**	**46**	**44**	**41**	**39**
C. Tailored Tests											
C1. Combined contingent liabilities	**51**	**66**	**64**	**61**	**59**	**56**	**54**	**52**	**49**	**46**	**44**
C2. Natural disaster	**51**	**62**	**61**	**59**	**57**	**55**	**53**	**51**	**49**	**47**	**45**
C3. Commodity price	**51**	**54**	**57**	**59**	**61**	**63**	**64**	**64**	**64**	**64**	**65**
C4. Market Financing	**51**	**50**	**48**	**45**	**42**	**40**	**37**	35	32	29	27
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
PV of Debt-to-Revenue Ratio											
Baseline	275	258	243	224	207	192	176	161	147	134	123
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	275	275	276	277	278	282	276	273	274	278	280
A2. Alternative Scenario : Climate change	284	277	272	262	254	248	241	234	228	223	212
B. Bound Tests											
B1. Real GDP growth	275	286	302	294	289	286	280	277	275	274	275
B2. Primary balance	275	282	300	281	263	249	231	215	201	188	176
B3. Exports	275	306	365	344	326	312	293	274	252	232	214
B4. Other flows 3/	275	269	266	247	229	215	198	182	167	153	140
B5. Depreciation	275	284	262	238	215	196	174	154	135	117	100
B6. Combination of B1-B5	275	272	287	270	254	242	227	213	201	189	179
C. Tailored Tests											
C1. Combined contingent liabilities	275	344	327	307	289	274	255	239	224	211	199
C2. Natural disaster	275	321	308	291	276	264	249	236	225	215	206
C3. Commodity price	275	317	326	332	327	321	309	297	295	294	294
C4. Market Financing	275	258	243	224	207	192	176	161	147	134	123
Debt Service-to-Revenue Ratio											
Baseline	86	81	68	52	49	38	36	29	27	24	23
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	86	82	74	63	64	58	58	57	61	65	67
A2. Alternative Scenario : Climate change	86	81	69	53	52	42	42	36	34	33	33
B. Bound Tests											
B1. Real GDP growth	86	87	82	68	67	58	58	56	58	60	62
B2. Primary balance	86	81	80	72	61	49	50	47	45	40	37
B3. Exports	86	81	70	56	54	42	40	36	36	33	31
B4. Other flows 3/	86	81	69	52	50	39	37	31	28	26	24
B5. Depreciation	86	77	69	53	53	40	38	31	28	25	23
B6. Combination of B1-B5	86	80	71	61	57	45	44	40	40	37	36
C. Tailored Tests											
C1. Combined contingent liabilities	86	81	107	72	62	57	61	59	51	44	42
C2. Natural disaster	86	84	95	68	61	55	56	53	49	45	44
C3. Commodity price	86	93	80	62	68	57	54	48	51	55	58
C4. Market Financing	86	81	68	52	49	38	36	29	27	24	23

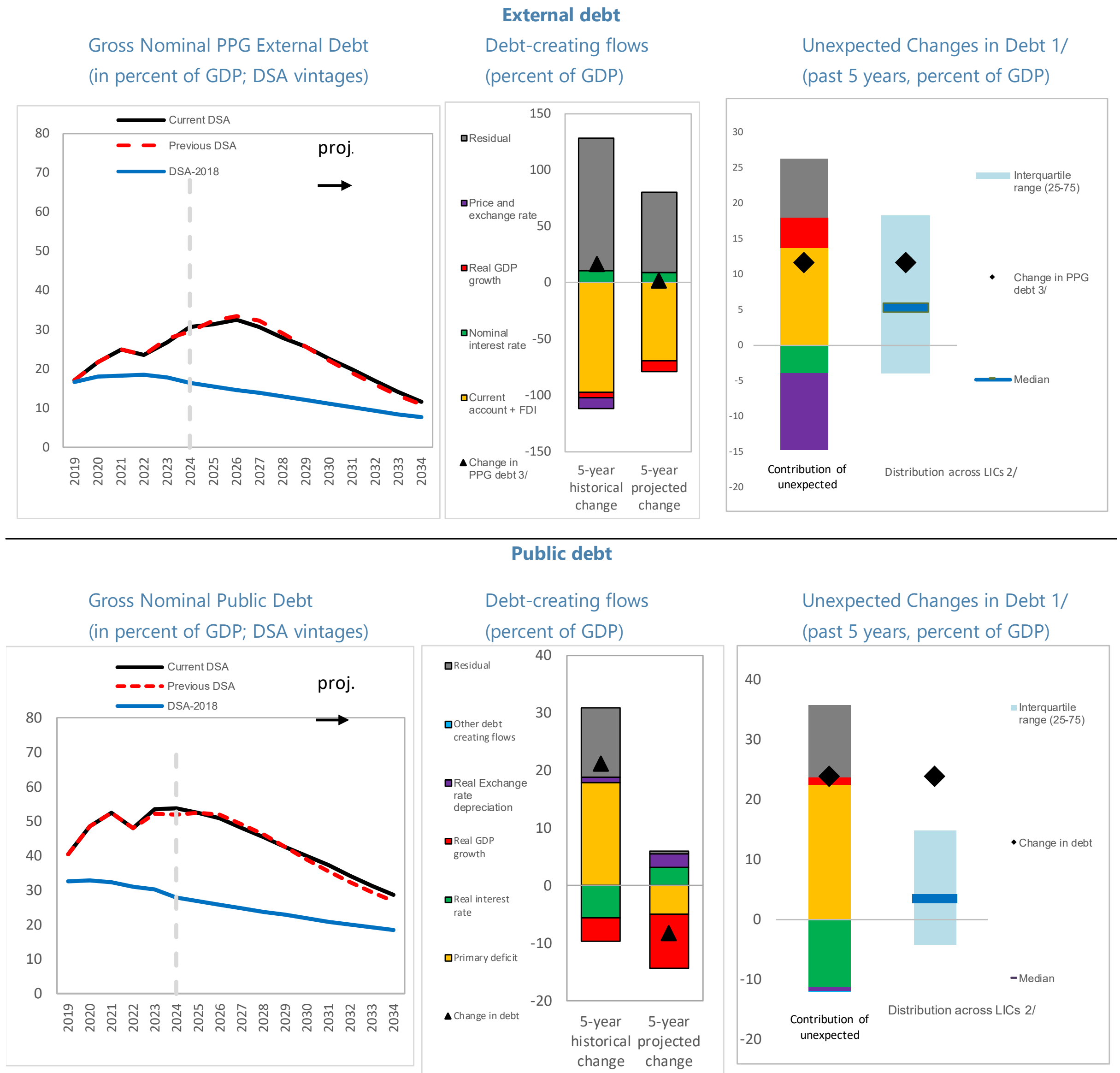
Sources: Country authorities; and staff estimates and projections.

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

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

3/ Includes official and private transfers and FDI.

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



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

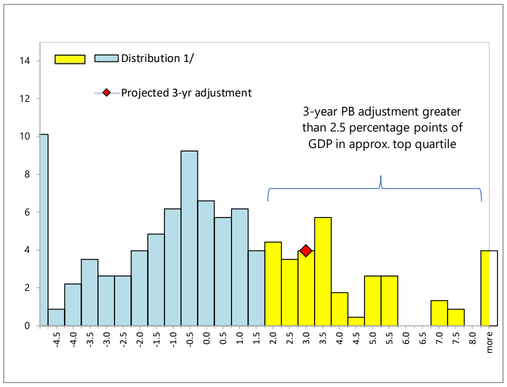
2/ Distribution across LICs for which LIC DSAs were produced.

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

Figure 4. Papua New Guinea: Realism Tools

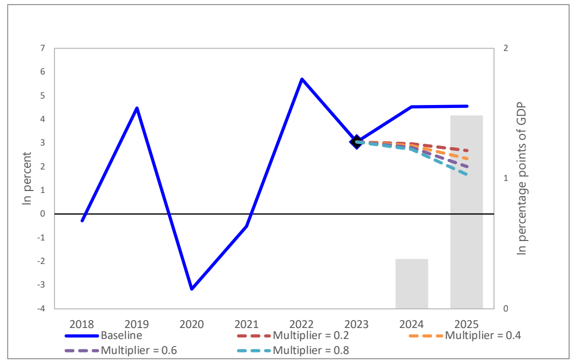
Figure 4. Papua New Guinea: Realism tools

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



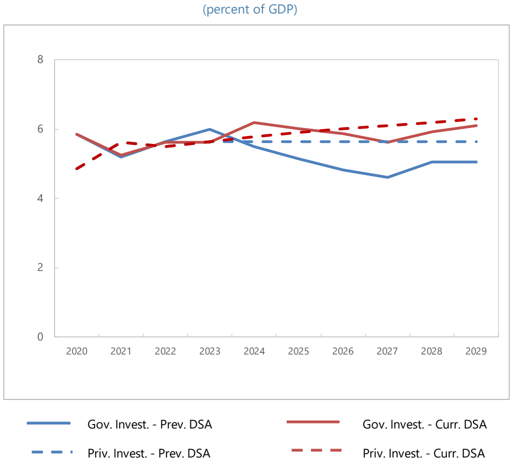
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

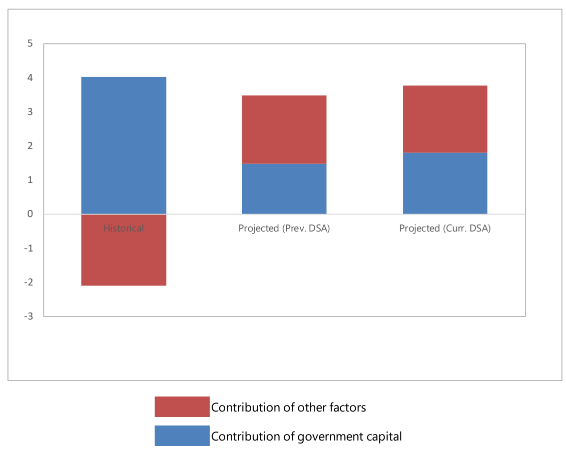


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



Contribution to Real GDP Growth
(percent, 5-year average)



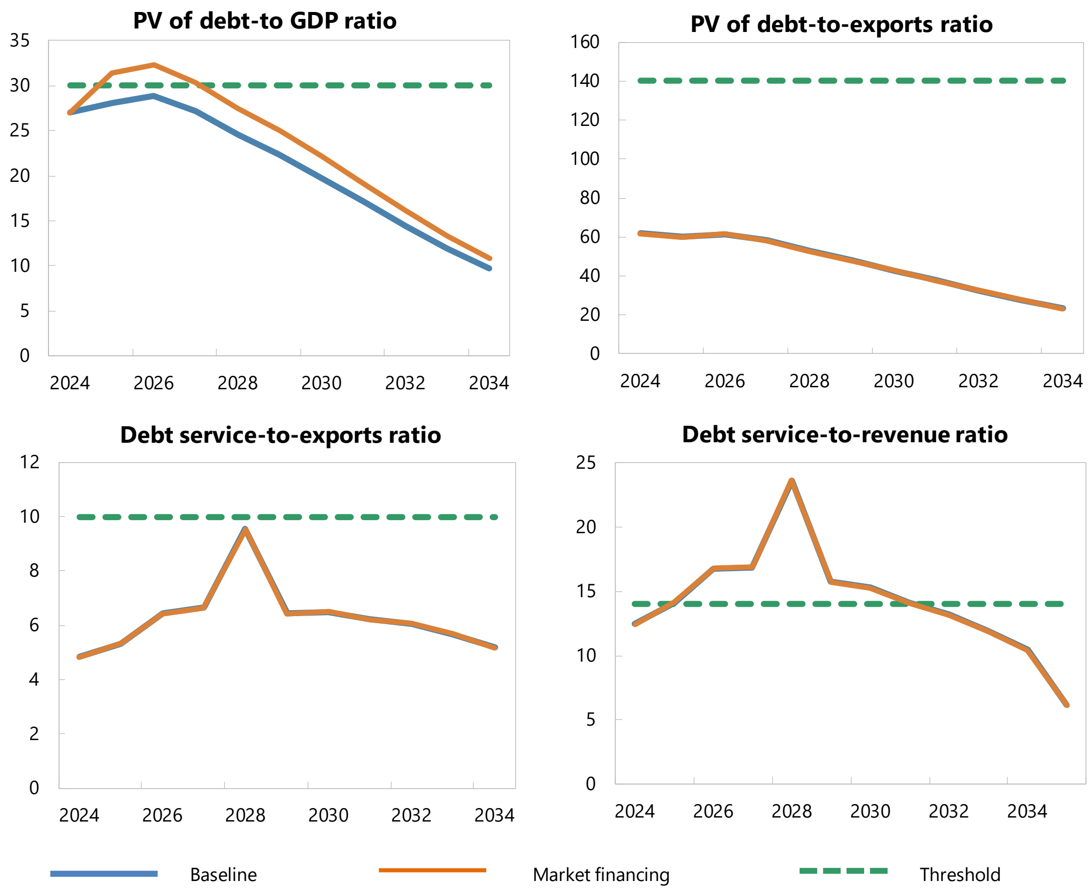
Sources: Country authorities; and staff estimates and projections.

Figure 5. Papua New Guinea: Market-Financing Risk Indicators

	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	18	486
Breach of benchmark	Yes	No
Potential heightened liquidity needs	Moderate	

1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.

2/ EMBI spreads correspond to the latest available data.



Sources: Country authorities; and staff estimates and projections.

INTERNATIONAL MONETARY FUND

PAPUA NEW GUINEA

November 21, 2024

THIRD REVIEWS UNDER EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, REQUEST FOR EXTENSION, REPHASING OF ACCESS, AND MODIFICATION OF QUANTITATIVE PERFORMANCE CRITERION, AND REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY

WORLD BANK ASSESSMENT LETTER FOR THE RESILIENCE AND SUSTAINABILITY FACILITY

A. Country Vulnerability to Climate Change Including Human, Social and Economic Costs for the Country Arising from Climate Change Vulnerabilities.

1. PNG's economy is highly vulnerable due to its reliance on natural resources, leading to volatile economic growth and high risk of public and external debt distress. Except for a few resource-dependent structural peers, PNG has shown the highest economic growth volatility since the 1980s, with a standard deviation of 5 percent from 1980 to 2021. The extractive sector and construction, which is closely tied to infrastructure development for resource projects, are particularly susceptible to fluctuations, resulting in boom-and-bust cycles in government spending. Weak governance exacerbates these challenges, making the country more vulnerable to exogenous shocks like natural disasters and impacts of climate change. Since 2020, when fiscal deficit reached 8.9 percent of GDP, PNG has been in high risk of debt distress and the government began fiscal consolidation to reverse the debt dynamics. The most recent Household Income and Expenditure Survey, from 2009, revealed that around 40 percent of the population lived below the poverty line of US$2.15 per day (2017 PPP terms), and a staggering 74.2 percent are multidimensionally poor.

2. PNG is one of the world's most vulnerable countries to climate change. The Notre Dame Global Adaptation Initiative (ND-GAIN) index ranks PNG 167th out of 187 countries in its resilience to climate impacts, with PNG's vulnerability to climate threats high and its readiness to address them as low. The country is exposed to extreme events including floods, landslides, droughts, and cyclones. According to the international disaster database EM-DAT, the combined effect of floods (15 events recorded), tropical cyclones (4), and extreme precipitation-caused landslides (12) affected over 650 thousand people from 2020. Projections indicate that these hazards are likely to intensify. Extreme heat poses health risks as temperatures shift towards unsafe levels even under lower emissions pathways. Climate change threatens natural resources and biodiversity. Widespread poverty, poor infrastructure, inefficient management, and degrading safety and security conditions increase the human vulnerability to climate change.

3. People living in coastal and low-lying areas are most vulnerable to climate change. Over 80 percent of Papua New Guineans live in rural areas, with 18 percent of the land regularly flooded. By 2030, human and economic losses from river flooding are expected to double, potentially affecting 20,000 more people and increasing GDP impact by US$90 million annually under a high-emissions scenario. Cyclone-related economic losses are also likely to worsen, with losses from a single 1 in 50-year event rising by 14-66 percent, and average economic losses increasing by around 5 percent. While uncertainties remain about the full extent of climate change impacts, evidence shows PNG is facing substantial increases in climate-related risks.

4. Climate change exacerbates existing conflicts in PNG. While not directly causing violence, it amplifies factors known to contribute to conflict, such as resource scarcity and displacement, leaving vulnerable communities more susceptible to violence.[1] For example, land disputes from climate-driven migration have sometimes led to violent conflict. In response, the PNG government is developing a national conflict prevention strategy to address these underlying drivers.

B. Government Policies and Commitments in Terms of Climate Change Adaptation and Priority Areas to Strengthen Resilience

5. The Government of PNG has demonstrated a commitment to adaptation due to significant climate risks. This is evident in its national long-term vision and strategic plans, including the Nationally Determined Contribution (NDC), PNG Vision 2050, the PNG Development Strategic Plan 2010-2030, the 4th Medium- Term Development Plan (MTDP-IV) 2023-2027, and the 2023 National Adaptation Plan (NAP). These strategies aim to strengthen economic growth foundations, enhance climate resilience, and mitigate emissions.

6. The enhanced NDC, submitted in 2020, outlines adaptation actions in four development sectors: agriculture, health, transport, and infrastructure. It sets targets for climate adaptation: (i) 100 percent of PNG's population benefiting from introduced health measures to respond to malaria and other climate- sensitive diseases; (ii) 70 percent of the population benefitting from improved early warning information; (iii) 10 percent of the total population having increased resilience of food and water security, health and well-being; and (iv) investments in transport, utility infrastructure, and assets built and/or rehabilitated to climate-resilient codes and standards. The 2023 NAP and the 2023-2027 MTDP-IV align with this enhanced NDC, establishing an implementation framework for financing, governance, coordination, and monitoring. This framework includes a roadmap to guide the NAP's implementation and

[1] As of September 2024, PNG recorded 332 conflict-related deaths over the preceding 12 months.

track progress from 2022 to 2030, with both strategic documents featuring timelines, targets, and indicators.

7. The Climate Change Management Act (CCMA), passed in 2015 and amended in 2022, serves as an overarching regulatory instrument for climate actions in the country. It mandates sectoral entities to mainstream adaptation into their planning and budgeting through climate-compatible adaptation action plans. The Climate Change and Development Authority (CCDA) coordinates all climate-related policies, ensuring climate-compatible growth. This framework supports implementation of the Paris Agreement, including participation in carbon offsetting mechanisms, and accessing climate finance.

C. Government Policies and Commitments in Terms of Climate Change Mitigation and Priority Areas to Reduce Greenhouse Gas Emissions

8. PNG is not a major global emitter, and its carbon intensity is lower than most Pacific nations. However, its emissions have risen rapidly since 1990, particularly from land use, land use change and forestry (LULUCF), and energy. The LULUCF sector has historically been a carbon sink, but its role as a sink has diminished over the past two decades due to deforestation from logging and subsistence agriculture, and in select years has acted as a net source. PNG's enhanced NDC focuses on LULUCF and energy, with opportunities in transportation. Key targets include: (i) increasing installed capacity of renewable energy from 30 percent in 2015 to 78 percent in 2030; (ii) reducing energy demand; (iii) establishing a framework for fossil fuel emission offsetting; (iv) enhanced data collection on energy use; (v) reducing annual emissions from deforestation and degradation by 10 million tons CO2 eq by 2030 (resulting in the LULUCF sector moving from a net GHG source in 2015 to a net GHG sink by 2030) and a 25 percent reduction in area of annual deforestation and annual degradation (equivalent to a reduction of 8,300 ha of annual deforestation and 43,300 ha reduction of annual degradation compared to a 2015 baseline).

9. The CCMA provides the overarching regulatory framework for climate mitigation action in PNG. The CCMA designated the CCDA as the lead to establish carbon pricing and any other mitigation actions under the UNFCCC and Paris Agreement. In 2023, the CCDA drafted carbon markets regulation, expected to be approved soon. For forestry, PNG has established a National REDD+ Strategy, Forest Reference Emissions Level (FREL), National Forest Monitoring System (NFMS), Safeguards Emission Systems (SIS), Benefit Sharing Mechanism (BSM), and Emission Reductions results reported under the REDD+ mechanism of the UNFCCC.

D. Other Challenges

10. Governance and capacity are major issues in PNG, with limited capability for collective action and a focus on short-term public action. The exploitation of natural resources has not led to sustainable growth or investment in physical and human capital. For effective climate action, the CCDA's capacity must be strengthened to coordinate across sectors. Decentralized management in the LULUCF sector, relying on limited provincial capacity, needs addressing. Coordination with other sectors, including the National Energy Authority (NEA), the Conservation and Environment Protection Authority (CEPA), and the Forest Authority (PNG-FA), also requires strengthening.

11. PNG is advancing carbon finance mechanisms and climate adaptation efforts, but stronger governance and institutional capacity are needed to meet its environmental goals. The government is collaborating with the international community to develop regulatory framework and technical mechanisms for carbon markets and improve climate adaptation, particularly in infrastructure development, vulnerability reduction, disaster risk financing, development of insurance and disaster relief mechanisms. The "Connect PNG" plan prioritizes transport and energy network investments by 2040. Investment needs in these sectors, jointly with the ones in telecommunication and water supply and sanitation, have been estimated in 17.8 billion PGK by 2027. Strategic documents like the MTDP-IV provide a roadmap, but effective implementation is key.

E. WB Engagement in the Area of Climate Change.

12. The World Bank has been engaged in supporting PNG's climate action and NDC commitments, through several operations, diagnostics, and technical assistance activities. The PNG Agriculture Commercialization and Diversification Project (US$40 million, approved in 2020) promotes climate-smart agriculture and rehabilitates climate-resilient agricultural feeder roads. In 2021, the PNG Crisis Response and Sustainable Recovery Development Policy Operation (DPO) (US$100 million) was approved. It included a Prior Action on the government adopting the enhanced NDC, setting higher ambitions for CO_2 emissions mitigation. This included greater contributions through REDD+ and the development of an NDC Implementation Plan, laying the groundwork for a sustainable future. The Resilient Transport Project (US$108m, approved 2022) focuses on improving the climate resilience of the Ramu Highway with investments covering the rehabilitation and improving maintenance practices to increase resilience to extreme weather events. The National Energy Access Transformation Project (US$204.2 million, approved 2024) supports renewable energy-based electrification and resilient design while enhancing energy access, supporting PNG's NDC target of 78 percent of installed capacity generated by renewable sources by 2030. Additionally, the Global Facility for Disaster Reduction and Recovery's DRM-FCV Nexus Program helped develop a sub-regional risk profile and review of climate resilience efforts in the Southern Highlands, East New Britain, and Bougainville. Ongoing support through the Partnership for Market Implementation is aiding PNG's readiness for carbon pricing and international carbon markets.

Statement by Seong-Wook Kim, Executive Director for Papua New Guinea
Nghi Phuong Luu, Alternate Executive Director,
and Megan Garner, Advisor to Executive Director

December 11, 2024

We convey the authorities' ongoing appreciation for the close working relationship and engagement with IMF staff under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF) arrangements. The authorities would like to extend their gratitude to Mr. Saadi Sedik, for the outstanding work during his tenure as mission chief, and to wish him all the best in his future endeavours. The authorities also acknowledge the significant contribution of the IMF's Fiscal Affairs Department and Pacific Financial Technical Assistance Centre (PFTAC) in undertaking the Climate Policy Diagnostic and Climate-Public Investment Management Assessment to inform the staff-level agreement for financing under the Resilience and Sustainability Facility (RSF).

Strong Program Ownership

The authorities have shown strong program ownership, led by the Treasurer and the Prime Minister, and have made demonstrable progress on the reform agenda under the IMF program since the last review. In the Third Review period, the authorities met all end-June 2024 quantitative and indicative targets, as well as all continuous performance targets. Two out of four structural benchmarks were fully implemented. The structural benchmark of data cleansing in the Government's payroll system was only partially implemented, due to the challenge of verifying data in very remote provinces. To ensure continued progress of the broader plan to enhance the management and efficiency of payroll expenditure, the Government has bought forward other aspects of the data cleansing exercise. The authorities are working towards the appointment of the Independent Commission Against Corruption's (ICAC) oversight committee, and other aspects of operationalizing the ICAC have progressed.

The authorities' enduring commitment to macroeconomic reform will set the economy on a path towards more stable and sustainable growth. Of note, amendments to the Central Banking Act adopted by Parliament in September 2024 will further bolster the independence and autonomy of the Bank of Papua New Guinea (BPNG). Draft amendments to the Internal Revenue Commission (IRC) Act, to strengthen the IRC's governance by establishing an oversight Board, and to the Income Tax Act, to close tax loopholes and modernize the tax system, are close to final. Better financial management of state-owned enterprises (SOEs) will support domestic revenue mobilization, and the near-term goal is to improve the governance and financial transparency of these entities.

Papua New Guinea's continued program ownership and strong performance has occurred against a backdrop of ongoing socio-economic frictions and political instability. Papua New Guinea is classified as a Fragile and Conflict-affected State and, when combined with public sector capacity constraints, this will continue to dictate the pace of reforms. The authorities are mindful of the need to build public trust and communicate carefully to secure the ongoing social acceptability of the reform agenda. To this end, they have requested an extension of the ECF/EFF arrangements to December 2026, which will ensure that key reforms can be completed under the program. The authorities also see the IMF, including through the continued presence of the resident representative, as a highly credible and trusted partner in Papua New Guinea that contributes to building social consensus on reform.

Fiscal Consolidation and Debt Reduction

Fiscal consolidation has continued, in line with the 13-year Fiscal Plan of budget repair. The 2025 budget seeks to further reduce the fiscal deficit through a combination of revenue mobilization and the consolidation of expenditure, while preserving social spending in line with the Poverty Reduction and Growth Strategy. A key pillar of the medium-term revenue strategy is the successful passage of the Income Tax Act, but this requires the careful building of political consensus and communication to the public—the authorities are working steadily towards submitting these amendments to Parliament.

The authorities are committed to strengthening expenditure controls and debt management capacity. A Public Investment Management Assessment from the IMF has been requested, with a view to improving the efficiency of capital expenditure in the medium term. Looking forward, the Government plans to enhance cash management practices, while being mindful of the impact on the domestic financial system. A new medium-term debt strategy, which was endorsed in October, will guide future government borrowing.

Monetary and Exchange Rate Policy Reform

The BPNG is committed to exchange rate reform and is carefully moving towards convertibility of the kina. In line with the roadmap for monetary policy and exchange rate reform ('the roadmap'), the authorities have continued with the crawl-like arrangement against the US dollar and with the gradual elimination of foreign exchange rationing measures. The authorities aim to fully address exchange rate misalignment, and the BPNG stands ready to respond to rising inflationary pressures in a manner that is consistent with the current exchange rate regime.

The BPNG continues to modernise its approach to monetary policy in line with the roadmap, including through enhanced liquidity management and improvements aimed at strengthening the transmission of monetary policy. The central bank is appreciative of the IMF's agreement to provide short term technical assistance, which will assist with the calibration and sequencing of further reforms in the roadmap. The authorities remain committed to implementing the IMF Safeguards Assessment recommendations and are working through the appointment of members to the newly constituted Monetary Policy Committee.

Financing from the Resilience and Sustainability Facility

The authorities welcome financing under the RSF, which will support a significant reform agenda aimed at reducing the macroeconomic risks associated with climate change effects. Papua New Guinea's geography renders the country vulnerable to the effects of climate change and frequently occurring natural disasters, and these present challenges for the balance of payments and external sector stability. The authorities acknowledge the ambitious nature of the RSF reform agenda and are mindful of the need to continue to meet the structural benchmarks and targets of the ECF/EFF program while executing the reforms under the RSF. Timely and well-targeted technical assistance from the IMF and other development partners will be critical for the program's success.

Concluding Remarks

The authorities are working to press ahead with the reform agenda under the ECF/EFF and are mobilizing resources to implement the planned RSF reform measures. These reforms will strengthen Papua New Guinea's growth prospects and build external sector resilience. The authorities wish to reiterate their gratitude for the ongoing contributions of staff from across the IMF and look forward to building a close working relationship with incoming mission chief Mr. Klein. **The authorities request Board approval of the Third Review under the ECF and EFF Arrangements, including the release of the related disbursements, the modification of performance criteria, and an extension of the program to December 2026, and approval of financing from the RSF.**