INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/134

PAPUA NEW GUINEA

June 2025

2025 ARTICLE IV CONSULTATION, FOURTH REVIEWS UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND THE ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, REQUESTS FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, MODIFICATION OF A QUANTITATIVE PERFORMANCE CRITERION, AND FIRST REVIEW UNDER THE 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 Staff Report for the 2025 Article IV Consultation, Fourth Reviews Under the Extended Arrangement Under the Extended Fund Facility and the Arrangement Under the Extended Credit Facility, Requests for a Waiver of Nonobservance of Performance Criterion, Modification of a Quantitative Performance Criterion, and First Review Under the 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 and summarizing the views of the Executive Board as expressed during its June 13, 2025, consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 13, 2025, following discussions that ended on April 9, 2025, with the officials of Papua New Guinea on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 28, 2025.
- An **Informational Annex** prepared by the IMF staff.
- 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.

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Washington, D.C.

IMF Executive Board Completes Fourth Reviews Under the Extended Credit Facility and Extended Fund Facility Arrangements, First Review of an Arrangement Under the Resilience and Sustainability Facility, and Concludes 2025 Article IV Consultation with Papua New Guinea

FOR IMMEDIATE RELEASE

- The Executive Board completed the Fourth Reviews under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF) arrangements for Papua New Guinea, providing the country with immediate access to about US$172 million.
- The IMF Executive Board also completed the First Review under the Resilience and Sustainability Facility (RSF) arrangement, making available about US$28 million to support the authorities' policies to address longer-term structural balance of payments vulnerabilities associated with climate change. Papua New Guinea is the first Pacific Island country to access the RSF.
- The IMF-supported programs will continue to support Papua New Guinea's homegrown 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 June 13, 2025, the Executive Board of the International Monetary Fund (IMF) completed the Fourth Reviews of Papua New Guinea's ECF/EFF arrangements and the First Review under the RSF arrangement.[1] The authorities have consented to the publication of the Staff Report prepared for this consultation.[2] The completion of these reviews allows for the immediate disbursement of SDR 121.07 million (about US$172 million) under the ECF/EFF and SDR 19.74 million (about US$28 million) under the RSF, bringing total disbursements under the programs so far to SDR 461.93 million (about US$655 million). The Executive Board also concluded the Article IV consultation with Papua New Guinea.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The staff report will be shortly published on the www.imf.org/en/Countries/PNG page.

The ECF/EFF arrangements with Papua New Guinea were approved by the Executive Board on March 22, 2023, in an overall amount equivalent to SDR 684.32 million (260 percent of quota) 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. The 24-month RSF arrangement, which was approved by the Executive Board on December 11, 2024, in an overall amount of SDR 197.4 million (75 percent of quota), aims to help address risks to prospective balance of payments stability associated with longer-term structural challenges posed by climate change.

Papua New Guinea's economic outlook remains positive as structural reforms continue to bear fruit. Notwithstanding a weakening external environment, growth is expected to increase to 4.7 percent in 2025, driven by strong growth in the resource sector and resilient growth in the non-resource sector in part thanks to improvements in access to foreign exchange. Headline inflation is expected to rise to 4.8 percent from a very low base in 2024 and core inflation is expected to edge up to 4 percent. Over the medium term, growth is expected to moderate and stabilize at just above 3 percent, supported by the non-resource sector growth, with inflation remaining anchored at around 4.5 percent.

The outlook is subject to significant downside risks, as Papua New Guinea is vulnerable to both domestic and external shocks. These risks are exacerbated by considerable capacity constraints and socio-political fragility that limit the government's ability to design and implement policies aimed at economic stabilization, development, and climate adaptation. Commodity price volatility, as well as other global risks arising from geopolitical conflicts, geoeconomic fragmentation, trade barriers, and supply disruptions may create additional pressure on growth and inflation. On the upside, the kickoff of major resource projects, which are not yet in the baseline scenario, could boost economic growth in the medium run, with significant 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 but one end-December 2024 quantitative performance criteria and indicative targets under the ECF-EFF arrangements were met, and six out of eight structural benchmarks due were fully or partially implemented. One reform measure under the RSF arrangement was 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 (PNG) authorities have continued implementing their multipronged reform agenda under the Fund-supported programs, with the reforms continuing to bear fruit. Sustained commitment to these homegrown reforms will help achieve more resilient, inclusive, and greener economic growth.

"The authorities have been successfully reducing the fiscal deficit and adopted important amendments to the Income Tax Act—a major milestone in the simplification of tax policies. Going forward, further fiscal adjustment, guided by the implementation of the authorities' medium-term revenue strategy and supported by efforts to limit the growth of current spending and strengthen expenditure efficiency, would help to durably reduce debt vulnerabilities. Securing fiscal space for social and capital spending, engaging in prudent borrowing, and strengthening debt management capacity, including to avoid incurrence of arrears, are also essential.

"Foreign exchange shortages continued to ease, supported by central banking reforms, increased flexibility of the Kina, and favorable external conditions. The current crawl-like arrangement remains appropriate to bring the Kina to its market-clearing rate and facilitate the return to Kina convertibility. A tighter monetary policy stance, through timely adjustments in the KFR, is needed to ensure consistency between monetary policy and the exchange rate regime. Further efforts to modernize monetary policy operations, strengthen the Bank of PNG's liquidity management capacity, develop the interbank market, and operationalize its lender of last resort function would help to support financial sector development.

"Further strengthening governance and addressing the remaining gaps in the anti-money laundering and countering the financing of terrorism regime are critical. Meanwhile, macro-structural reforms should focus on improving PNG's external competitiveness and attracting foreign investment, including by removing barriers to trade, enhancing export capacity, and further diversifying the economy.

"Reforms under the new RSF arrangement will help the authorities build resilience against climate-related risks and address structural balance of payments vulnerabilities. The recent climate finance roundtable event, which provided several concrete and innovative climate finance options, will support the authorities' efforts to effectively scale up resources for climate action.

"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 underpin reform implementation.

Executive Board Assessment[3]

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for their commitment to keep program performance on track in a fragile socio-political environment and welcomed positive developments in macroeconomic and fiscal indicators. Given significant downside risks and elevated external uncertainty, they stressed the importance of building buffers to preserve macroeconomic stability. They encouraged the authorities to continue to advance critical structural reforms with the support of capacity development activities.

Directors supported the authorities' fiscal consolidation strategy and stressed the need for continued efforts to durably reduce public debt risks, including by enhancing the rules-based fiscal framework, strengthening debt management capacity, and maintaining a prudent borrowing strategy. They called for a continued reduction of the fiscal deficit while securing space for development spending by combining revenue mobilization efforts with improvements in expenditure efficiency and cash management. They called for a timely adoption of the amendments to the Internal Revenue Commission Act to reinforce accountability in revenue collection.

[3] At the conclusion of the discussion, the Managing Director, as Chair of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Directors commended the progress achieved in implementing central banking reforms. They supported efforts to depreciate the Kina to its market-clearing rate and gradually eliminate foreign exchange restrictions. They broadly concurred that a tighter monetary policy stance would help anchor inflation expectations and support the exchange rate regime, and emphasized the importance of liquidity management reforms to strengthen monetary policy transmission. They encouraged further development of the financial sector while containing financial stability risks.

Directors encouraged the authorities to further promote good governance, law and order, proactively enhance their AML/CFT framework, allocate sufficient budget resources to the Independent Commission Against Corruption, and swiftly appoint its oversight committee members. They also emphasized the need for enhancing transparency in the financial dealings of state-owned enterprises.

Directors encouraged the authorities to expedite reforms to enhance external competitiveness and help attract foreign investment, including by improving the business environment, removing barriers to trade, enhancing export capacity, reducing gender imbalances, and further diversifying the economy. Directors commended efforts to scale up climate finance and called for maintaining focus on strengthening disaster risk management, setting up fiscal incentives for fuel efficiency and forest protection, and integrating climate considerations in infrastructure governance.

It is expected that the next Article IV consultation with Papua New Guinea will be held in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.

Papua New Guinea: Selected Economic and Financial Indicators, 2021–2026

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

	2021	2022	2023	2024	2025	2026
	Actual	Actual	Actual	Est.	Proj.	Proj.
			(Percentage change)			
Real sector						
Real GDP growth	-0.5	5.7	3.8	3.8	4.7	3.5
Resource 2/	-11.6	5.1	1.3	1.7	4.7	1.4
Non-resource	4.2	5.9	4.7	4.5	4.8	4.2
Mining and quarrying (percent of GDP)	8.2	8.2	8.5	9.9	12.2	13.4
Oil and gas extraction (percent of GDP)	17.1	23.7	18.9	18.3	16.4	16.2
CPI (annual average)	4.5	5.3	2.3	0.6	4.8	4.6
CPI (end-period)	5.7	3.4	3.9	0.7	4.0	4.3
			(In percent of GDP)			
Central government operations						
Revenue and grants	15.1	16.6	17.9	17.0	17.9	18.6
Of which: Resource revenue	1.1	3.9	3.9	3.5	4.2	4.5
Expenditure and net lending	22.0	21.9	22.3	20.4	20.5	19.7
Net lending(+)/borrowing(-)	-6.8	-5.3	-4.3	-3.4	-2.6	-1.2
Non-resource net lending(+)/borrowing(-)	-8.0	-9.1	-8.2	-6.9	-6.8	-5.7
			(Percentage change)			
Money and credit						
Domestic credit	15.9	1.5	12.1	1.6	3.6	2.3
Credit to the private sector	2.5	6.9	14.9	3.2	13.4	10.8
Broad money	13.4	14.7	9.9	-6.4	-8.5	7.7
			(In billions of U.S. dollars)			
Balance of payments						
Exports, f.o.b.	10.8	14.6	12.8	13.4	14.9	15.1
Imports, c.i.f.	-4.4	-5.9	-5.4	-4.6	-6.1	-6.8
Current account (including grants)	3.3	4.6	2.8	5.0	3.5	4.2
(In percent of GDP)	12.6	14.4	9.1	15.8	10.8	12.7
Gross official international reserves	3.2	4.0	3.9	3.7	3.0	3.5
(In months of goods and services imports)	4.5	5.9	6.7	5.6	3.7	4.3
			(In percent of GDP)			
Government debt						
Government gross debt	52.6	48.2	53.9	52.1	50.5	48.9
External debt-to-GDP ratio (in percent) 3/	25.0	23.5	27.0	27.4	29.7	30.5
External debt-service ratio (percent of exports)	4.3	2.2	2.7	3.4	4.5	5.4
Memo Items						
US$/kina (end-period)	0.2850	0.2840	0.2683	0.2500	...	...
NEER (2005=100, fourth quarter)	91.2	100.3	95.3	89.3	...	...
REER (2005=100, fourth quarter)	125.3	134.6	129.0	119.5	...	...
Terms of trade (2010=100, end-period)	48.3	70.4	64.0	62.7	67.7	66.8
Nominal GDP (in billions of kina)	91.6	111.4	110.6	121.5	134.9	144.2
Non-resource nominal GDP (in billions of kina)	68.4	75.9	80.3	87.3	96.3	101.6

Sources: Papua New Guinea authorities; 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 guarantees to other entities.

INTERNATIONAL MONETARY FUND

PAPUA NEW GUINEA

May 28, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION, FOURTH REVIEWS UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND THE ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, REQUESTS FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, MODIFICATION OF A QUANTITATIVE PERFORMANCE CRITERION, AND FIRST REVIEW UNDER THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY

EXECUTIVE SUMMARY

Context. Papua New Guinea (PNG) is navigating a wide range of macroeconomic and social challenges. The economy was beset by a series of exogenous shocks over the past decade, including low commodity prices, droughts, earthquakes, and the COVID-19 pandemic, which adversely affected growth, contributed to foreign exchange shortages, and pushed up public debt. The outlook is positive, but the economy remains in a fragile state—including from further negative effects of climate change—and is facing significant development and climate adaptation gaps. This calls for a continued implementation of a multipronged reform agenda aimed at promoting inclusive, sustainable, and resilient growth.

Program background. On March 22, 2023, the IMF Executive Board approved Extended Credit Facility (ECF) and Extended Fund Facility (EFF) arrangements with Papua New Guinea, extended to 45 months in December 2024, 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. On December 11, 2024, the Board approved a 24-month arrangement under the Resilience and Sustainability Facility (RSF) to help address risks to prospective balance of payments stability associated with longer-term structural challenges posed by climate change.

Program developments. ECF/EFF program performance has been broadly on track, with all but one quantitative performance criteria (QPC) and indicative targets (IT) for end-December 2024 met. Out of the eight structural benchmarks (SB) due, two were met, two were implemented with a delay, two were partially implemented, and two are proposed to be reset. Six new SBs are proposed to help broaden the tax base, improve transparency and

predictability of issuances of government securities, enhance liquidity management, operationalize the central bank's lender of last resort function, and enhance the effectiveness of the AML/CFT framework. Implementation of climate policy reforms supported by the RSF have started with the completion of one reform measure (RM) and progress recorded on the remaining RMs.

Article IV discussions. Discussions focused on reforms needed to reduce vulnerabilities further and promote inclusive, sustainable, and resilient growth. Key policy recommendations are the following:

- **Fiscal policy.** Further reduce debt vulnerabilities and create space for development spending by advancing fiscal consolidation, underpinned by revenue mobilization reforms, expenditure rationalization efforts, and a prudent borrowing strategy. A stronger rules-based fiscal framework would help to bring public debt to safe levels in the medium-term.

- **Monetary and financial policies.** Tighten the monetary policy stance to reduce FX pressures, and maintain the crawl-like arrangement while gradually removing foreign exchange rationing measures to facilitate the return to Kina convertibility. Continue to modernize monetary policy operations to help support financial sector development, while paying attention to financial stability risks.

- **Governance and AML/CFT.** Allocate sufficient budget resources to the Independent Commission Against Corruption (ICAC) to ensure its effective operationalization. Address gaps in the anti-money laundering and countering the financing of terrorism (AML/CFT) regime. Further strengthen SOE financial management.

- **Macro-structural policies.** Improve PNG's trade competitiveness and attractiveness for foreign investment, including by removing barriers to trade, enhancing export capacity, tackling impediments related to security, connectivity and human capital, and further diversifying the economy.

- **Climate change.** Further strengthen disaster risk management, integrate climate considerations in infrastructure governance, enable climate finance, and set up fiscal incentives for forest protection and energy efficiency.

- **Data adequacy.** Devote sufficient resources, with capacity development support, and strengthen interagency coordination to improve data quality, timeliness, and consistency.

Staff views. Staff supports the authorities' request for (i) the completion of the fourth reviews under the EFF/ECF arrangements and the first review under the RSF arrangement; (ii) a waiver of non-observance of a performance criterion; (iii) the modification of a continuous QPC for the second half of 2025; and (iv) the resetting of two SBs to a later date. The Letter of Intent and Memorandum of Economic and Financial Policies demonstrate program ownership and appropriate policies to reach the goals of the authorities' programs

Approved By
Thomas Helbling (APD) and Stefania Fabrizio (SPR)

A staff team consisting of N. Klein (head), F. Gonguet, Y. Zhou (all APD), W. Yim, D. Seneviratne (both MCM), M. Ricaurte (SPR) and K. Tamiru Gulilat (FAD) visited Port Moresby during March 27 – April 9, 2025. The mission met with Treasurer Ling-Stuckey, BPNG Governor Genia, Treasury Secretary Oaeke, BPNG Deputy Governor Yabom, senior government officials, development partners, and representatives of the private sector. Ms. Luu and Ms. Garner (OED) participated in several meetings. The mission was assisted by S. Rafiq, Resident Representative, and S. Kilian, local economist. R. Paewai, Y. Xu, L. Anisi, and S. Nawar provided administrative and research support for the preparation of the staff report.

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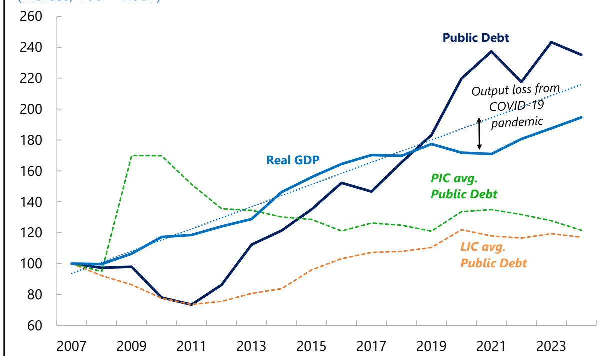
CONTEXT

1. **Papua New Guinea (PNG) is a fragile state whose macroeconomic and social stability is at risk.** PNG is a resource-rich economy, and its dependence on hydrocarbon and mining exports has risen in recent years, particularly after the PNG Liquified Natural Gas (LNG) project became operational in 2014. The economy was beset by a series of exogenous shocks over the past decade, including low commodity prices, severe droughts, earthquakes, and the COVID-19 pandemic, all of which adversely affected growth, contributed to persistent foreign exchange (FX) shortages, and pushed up public debt. In addition, there are risks to political and social stability, as demonstrated by the social unrest in January 2024 and the subsequent cabinet reshuffles and multiple no-confidence votes in Parliament.

Papua New Guinea: Public Debt and Real GDP

(Indices, 100 = 2007)

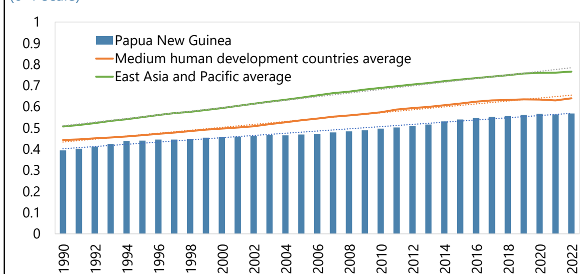


Sources: WEO; PNG Department of Treasury; and IMF Staff Calculations.

2. **Furthermore, PNG's development and climate adaptation gaps remain significant.** PNG faces acute development needs, particularly in terms of provision of health and education services, and access to water and power. Measures of PNG's social and economic development, such as the Human Development Index, show that—despite significant progress in the recent decades—it still lags many of its peers, ranking at the lowest quartile worldwide. Moreover, PNG is among the countries most vulnerable to the negative effects of climate change, and the low coping and adaptive capacity pose additional risks for people's livelihoods, infrastructure, and biodiversity.

Papua New Guinea: Human Development Index (HDI), 2022

(0-1 scale)



Source: UNDP.

Note: The HDI is a summary measure of average achievement in a long and healthy life, being knowledgeable, and having a decent standard of living. A higher HDI indicates stronger human development.

3. **Recognizing these challenges, the PNG authorities have taken steps to preserve macroeconomic stability and address longstanding structural issues, including from climate change.** The authorities are resolute to make progress in fostering inclusive, sustainable, and resilient growth. To support their homegrown reform agenda, the ongoing 45-month Extended Credit Facility (ECF)/Extended Fund Facility (EFF) arrangements aim to address a protracted balance of payments need and tackle long-lasting structural impediments to growth. Complementing these efforts, the 24-month Resilience and Sustainability Facility (RSF) arrangement aims to help address risks associated with longer-term structural challenges posed by climate change, thereby contributing to PNG's prospective balance of payments stability. While ambitious, the arrangements are focused on macro-critical conditionality, supported by capacity development (CD), and informed by PNG's

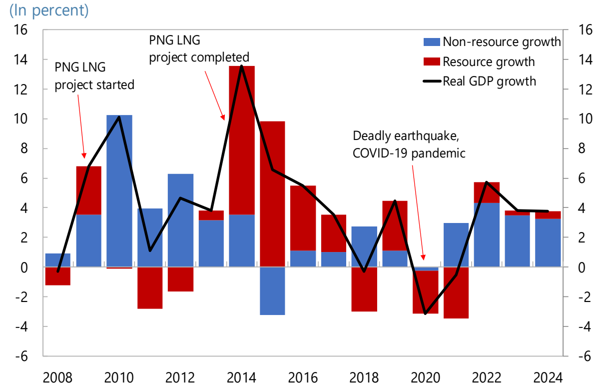
Country Engagement Strategy,[1] in line with the IMF's Strategy for Fragile and Conflict-Affected States (FCS).

RECENT DEVELOPMENTS

4. In 2024, growth is estimated to have remained resilient while inflation further weakened. Growth is estimated at 3.8 percent—similar to the pace of the previous year—reflecting an increased capacity in the resource sector, particularly in the Porgera gold mine, which fully offset a slightly slower momentum in the non-resource sector. Although improving during the year, FX shortages continued to weigh on activity by constraining private sector investment and consumption and posing high uncertainty. Headline inflation weakened significantly to 0.6 percent from 2.3 percent in 2023, mainly due to declines in betelnut prices, but core inflation edged up to 3.2 percent, driven by the waning effect of the education subsidies and rising transportation costs. In 2025Q1, headline inflation sharply increased due to a strong rebound in betelnut prices while core inflation continued to edge up on account of higher food prices.

Papua New Guinea: Real Growth

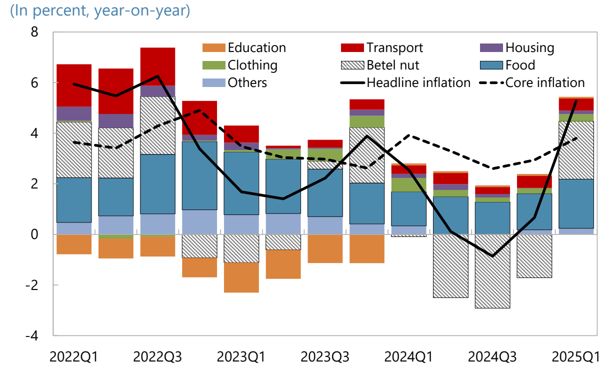
(In percent)



Sources: NSO; and IMF Staff Calculations.

Papua New Guinea: Contribution to Headline Inflation

(In percent, year-on-year)



Sources: NSO; and IMF Staff Calculations.

5. The fiscal deficit narrowed further to 3.4 percent of GDP in 2024 from 4.3 percent of GDP in 2023. This was driven by rationalization of current expenditure, which decreased by 1.2 percentage points (pp) of GDP relative to 2023 largely due to measures to contain the growth of spending on goods and services and compensation of employees. Capital expenditure also decreased from an already low level (¶18) due to lower-than-expected project grants and the authorities' efforts to cancel investment projects with low rate of return. At the same time, tax revenue declined by 0.7 pp of GDP relative to 2023, largely reflecting a decrease of 0.8 pp of GDP in

[1] See Annex IV, IMF Country Report No. 23/385.

goods and services tax (GST) from an exceptionally high base in 2023.[2] Public debt started declining in 2024 to 52 percent of GDP from a peak of 54 percent in 2023.

6. **Net international reserves (NIR) remained adequate at USD 2.4 billion at end-2024, supported by a widening of the current account surplus.** The USD 0.4 bn decrease in NIR relative to end-2023 mostly reflects the active intervention strategy by the Bank of Papua New Guinea (BPNG) to support the clearing of the backlog of essential FX orders. While FX shortages persist, the combination of (i) the gradual depreciation of the Kina (6.8 percent in 2024); (ii) increasing FX inflows, especially in the mining and agriculture sectors; (iii) greater offshore sourcing of FX by the main oil importer; and (iv) the increase in size and frequency of BPNG's FX interventions, has reduced waiting times for FX, particularly for essential import orders. The current account surplus widened to about 16 percent of GDP in 2024, mainly due to significant import compression in 2024H1 and, to a lesser extent, higher exports. External sector assessment for 2024 suggests that PNG's external position was moderately weaker than the level implied by medium-term fundamentals and desirable policies, with the REER estimated to be overvalued by about 6.2 percent (Annex II), broadly in line with alternative higher-frequency models.[3]

7. **The monetary policy tightening has paused in recent months following a significant absorption of excess liquidity in early 2024**. In 2024H1, the BPNG increased the Kina Facility Rate (KFR)—its key short-term liquidity instrument—from 2 to 4 percent and raised the cash reserve requirement (CRR) ratio from 10 to 12 percent—its highest level in two decades. On aggregate, excess liquidity fell sharply, contributing to higher yields on government securities, particularly at the longer end, while reducing FX market pressures. With rising interest rates, lower liquidity and delays in the launch of major resource projects, private sector credit growth fell significantly from nearly 15 percent y/y in end-2023 to about 3 percent in end-2024. In March 2025, the newly established Monetary Policy Committee (MPC) maintained the KFR unchanged but lowered the CRR ratio to 11 percent to ease the uneven liquidity distribution across banks (¶8).

8. **The financial sector continues to perform well, but vulnerabilities remain.** Banks have been adjusting the composition and maturity of their investment portfolios to higher interest rates, keeping profitability at comfortable levels. As of end-2024, capital adequacy ratios remained well above prudential standards, and nonperforming loans—although higher than pre-pandemic levels—decreased from their 2021 peak. Overall liquidity has declined, but in an uneven manner, becoming tighter for domestic banks including due to the CRR increase, as evidenced by their consistent reliance on the overnight reverse repo facility in the last quarter of 2024 and as of end-February 2025. At the same time, foreign banks continue to face excess liquidity, which cannot be invested in local assets due to country exposure limits set by their parent companies. Despite new banking

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[2] The large increase in GST in 2023 was driven by several factors, including the removal of GST exemption to retail fuels, the rollout of GST to suppliers to local government and SOEs, and a one-off limited transfers to local governments due to the low collection in 2022. The significant increase in gross GST in 2023 also led to higher transfers to local governments in 2024, resulting in a decrease in net GST revenue compared to 2023. Medium-term net GST projections have been adjusted relative to the Third Review to reflect these factors.

[3] Annex VI, IMF Country Report No. 23/385 provides details on the specification of these models.

licenses issued by BPNG, the banking sector remains highly concentrated, with one domestic (and partly state-owned) bank carrying 70 percent of banking system's assets. In addition, the bank-sovereign nexus is high, given that government deposits and government securities account for a third of total bank assets.

OUTLOOK AND RISKS

9. Weakening global conditions may affect PNG's economy through various channels. PNG's limited trade exposure to the US means that the direct impact of rising tariffs is likely to be limited. However, weaker growth in key trading partners may affect PNG indirectly, mainly through lower demand for its commodity exports. Meanwhile, the price effect is likely to be mixed: while the prices of LNG exports are expected to decline, gold prices have recently reached all-time highs, and the prices of some other metals have increased significantly since the beginning of the year. In addition, if the recent USD depreciation against other currencies proves persistent, it may also support PNG's external competitiveness and resilience of exports given the current crawling peg arrangement vis-à-vis the USD. PNG has also limited exposure to some of the recently announced reductions in bilateral development assistance globally.

10. Notwithstanding the weakening external environment, growth in 2025 is projected to increase, primarily reflecting easing bottlenecks in both the resource and non-resource sectors (Text Table 1). Real growth in 2025 is expected to pick up to 4.7 percent, driven by stronger growth in the resource sector as production capacity of Porgera gold mine is expected to increase to 75 percent from around 40 percent in 2024. In addition, continued improvement in access to FX, combined with a weaker currency and favorable agricultural production, is expected to lift non-resource sector growth. Headline inflation is projected to rebound to 4.8 percent from a very low base in 2024 as the drag from the low betel nut prices wanes while average core inflation is expected to edge up to 4.0 percent. With greater access to FX, import compression is expected to ease, narrowing the current account surplus to 10.8 percent of GDP in 2025, but continued efforts by BPNG to reduce the backlog of FX orders are projected to lead to a further reduction of reserves this year. Over the medium term, growth is expected to moderate and stabilize at just above 3 percent, supported by the non-resource sector growth, with inflation remaining anchored at around 4.5 percent.

Text Table 1. Papua New Guinea: Selected Economic Indicators, 2024-2030

	2024	2025	2026	2027	2028	2029	2030
Real GDP growth (percent)	3.8	4.7	3.5	3.1	3.1	3.1	3.1
Resource (percent)	*1.7*	*4.7*	*1.4*	*0.1*	*0.2*	*0.2*	*0.2*
Non-resource (percent)	*4.5*	*4.8*	*4.2*	*4.1*	*4.1*	*4.0*	*4.0*
CPI (annual average, percent)	0.6	4.8	4.6	4.6	4.6	4.5	4.5
Overall fiscal balance (percent of GDP)	-3.4	-2.6	-1.2	0.0	0.0	0.2	0.3
Current account balance (percent of GDP)	15.8	10.8	12.7	11.3	11.8	10.7	11.4
Government gross debt (percent of GDP)	52.1	50.5	48.9	46.3	44.1	41.9	39.4

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

11. The outlook is subject to high uncertainty, with risks tilted to the downside (Annex III). Downside risks include a drop in commodity prices, weaker external demand, unstable supply of critical utilities, and natural disasters. Further political and social instability could hinder economic growth by undermining the implementation of the reforms and worsening the business environment while tensions among local communities at the Porgera gold mine could disrupt its production. Cyberattacks could disrupt the provision of critical government and central bank services and trigger financial and socio-economic instability. Global risks arising from geopolitical conflicts, geoeconomic fragmentation, trade barriers, and supply disruptions may create additional pressure on growth and inflation, although a weaker US dollar and rising gold prices could help in offsetting some of these adverse effects. Key upside risks include higher commodity prices and the kickoff of major resource projects, including Papua LNG, P'nyang LNG, and the Wafi-Golpu gold mine, for which final investment decisions could occur by end-2025 or early 2026.

Authorities' Views

12. The authorities broadly agreed with staff's assessment of PNG's economic outlook and risks. In the near term, they highlighted that favorable agricultural commodity prices and improved access to FX will support non-resource sector growth, while the resource sector is set to benefit from an increased production capacity of Porgera gold mine. They expected that headline inflation will increase to its historical average in 2025 on account of base effect and continued depreciation of the Kina amid the crawl-like exchange rate arrangement. In the medium term, they remained more optimistic regarding the growth potential from major resource projects in the pipeline and from continued roll-out of Government-funded intervention programs in the agricultural sector. They concurred that political and social instability, commodity price volatility, and weaker external demand, are significant downside risks to growth and recent changes to oil prices and increased international economic uncertainties create potential fiscal pressures that may need to be addressed. The authorities shared staff's external sector assessment, noting that despite improvements in the FX market, external vulnerabilities persist, and the Kina remains overvalued—albeit less than at the start of the ECF-EFF arrangements.

PROGRAM PERFORMANCE

13. Program performance has been broadly on track, with all but one quantitative performance criteria (QPC) and indicative targets (IT) for end-December 2024 and end-March

2025 met (Text Table 2, MEFP ¶4).[4,5] At end-December 2024, the fiscal deficit was lower than the QPC ceiling, while non-resource tax revenue and priority spending were both above their respective indicative floors–consistent with the authorities' fiscal repair strategy. NIR remained comfortably above the QPC floor, while the BPNG's gross credit to the government was below the QPC ceiling. Newly contracted external debt remained significantly below the present value (PV) QPC. While the government did not accumulate new payroll or domestic debt arrears, a government guarantee was called in late December 2024 (after the third program reviews) following missed payments by a joint venture in 2022-2024, immediately resulting in a breach of the continuous QPC on the absence of new external payment arrears for a total amount of USD 8.5 million (0.02 percent of GDP). The loan,

Text Table 2. Papua New Guinea: QPC and ITs, September 2024 – March 2025

(In million kina, unless mentioned otherwise)

	2024						2025		
	September Indicative target			December Test date			March Indicative target		
	Approved	**Outcome**	Status	Approved	**Outcome**	Status	Approved	**Outcome**	Status
A. Quantitative performance criteria 1/									
Fiscal deficit of the government (ceiling, cumulative from the beginning of the year)	4,132	**2,274**	met	4,810	**4,138**	met	1,159	**349**	met
Stock of net international reserves of the BPNG (floor, US$ millions)	2,200	**2,730**	met	2,050	**3,183**	met	1,988	**2,723**	met
BPNG's gross credit to government (ceiling)	2,400	**2,126**	met	2,400	**2,128**	met	2,400	**2,062**	met
B. Continuous quantitative performance criteria (ceilings) 2/									
New external payment arrears of the government (ceiling, US$ millions)	0	**0**	met	0	**8.5**	not met	0	**8.5**	not met
Present value of new external debt contracted or guaranteed by the government (ceiling, US$ millions) 3/	1,072	**0**	met	1,425	**592**	met	810	**0**	met
C. Indicative Targets									
Non-resource tax revenue of the government (floor, cumulative from the beginning of the year)	10,714	**10,702**	not met	14,677	**14,740**	met	3,268	**3,350**	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/	2,958	**4,742**	met	4,059	**8,439**	met	550	**1,458**	met
Stock of unmet import-related FX payments in the orderbook (ceiling)	100	**0**	met	75	**40**	met	50	**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 and 2025.

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

[4] The calculation of the NIR QPC was adjusted to correct for a valuation error. Specifically, the revised NIR is USD 3,316 million at end-December 2023, 2,855 million at end-March 2024, 2,784 million at end-June 2024 and 2,730 million at end-September 2024. Staff confirms that the correction does not affect the assessment of the QPC in the second and third reviews (met at all test dates and indicative test dates) and does not constitute misreporting.

[5] The fiscal deficit at end-March 2025 considers the variation in the balance of check and transfer floats ("check float balance"), consistent with the methodology used for calculating the fiscal deficit as reported by the authorities at past QPC test dates (end-June and end-December), where the check float balance is reflected. However, at previous IT test dates (end-March and end-September), the fiscal deficit was not adjusted to reflect the check float balance, since such data were not previously available on a quarterly basis due to capacity constraints – as such, the calculation methodology for past IT test dates is inconsistent with that used for QPC test dates. While inaccurate calculation of ITs does not result in misreporting, staff is discussing with the authorities to retrieve historical data on the check float balance to reassess the fiscal deficit at previous IT test dates. Going forward, the TMU language is adjusted to clarify the existing calculation methodology for this QPC on fiscal deficit, which will reflect the check float balance at both QPC and IT test dates, given the authorities' improved capacity to report such data on a quarterly basis.

which was provided by a private lender whose claim is insured by a Paris Club creditor, was fully repaid by the government on April 30, 2025, and the government is committed to a set of corrective actions (see ¶49).[6] Over this review period, the authorities did not impose any new exchange restrictions or intensify existing ones, nor was there evidence of Multiple Currency Practices.

14. The structural reform agenda is progressing, albeit with some delays (MEFP ¶4).

- ***Structural benchmarks (SBs) under the ECF/EFF arrangements (Table 12).*** Out of the eight SBs due by the fourth reviews, two were met in a timely fashion, namely the restriction of the eligibility to central bank bills (CBB) and the issuance of a new 28-day CBB; two were fully implemented with delay—the amendments to the Income Tax Act (ITA) and the dividend policy for state holding companies; and two were partially implemented with delay—the data cleansing exercise in the National Capital District and the signature of the Independent Commission Against Corruption (ICAC)'s memoranda of understanding with other anti-corruption agencies. The authorities are requesting to reset the deadlines for: the amendments to the Internal Revenue Commission (IRC) Act to end-July 2025 (¶17); and the appointment of the ICAC's oversight committee to end-September 2025 (¶32). The implementation of the three other ongoing SBs due by the fifth and sixth reviews is on track, with the support of ongoing and planned Fund CD.

- ***Reform measures (RMs) under the RSF arrangement (Table 13).*** Out of the two RMs for which the tentative target date has passed, one has been met, namely the disaster risk screening mechanism (RM4). The submission of amendments to the Excise Tariff Act (RM9) will be assessed at a future RSF review, given the authorities' need for additional time to review calibration options, with Fund support.

POLICY DISCUSSIONS: PROMOTING INCLUSIVE, SUSTAINABLE, AND RESILIENT GROWTH

PNG's high susceptibility to shocks and immense development needs call for a multipronged reform agenda that promotes inclusive, sustainable, and resilient growth. Key policy priorities should include sustained fiscal consolidation to reduce public debt vulnerabilities while creating fiscal space for social and infrastructure spending; continued implementation of the Roadmap of central banking reforms to modernize monetary policy, restore kina convertibility, and support financial sector development; and further steps to strengthen anti-corruption, governance, and AML/CFT frameworks. Measures to tackle longstanding structural impediments to private sector development and strengthening resilience to climate change must also be critical elements of the agenda.

[6] In addition, there is an ongoing dispute regarding the government's liability in another guarantee involving an outstanding amount of USD 2.6 million on the underlying private sector loan.

A. Fiscal Policy

15. The authorities are determined to stay the course on fiscal consolidation and put the public debt on a downward path, consistent with their fiscal repair strategy (Text Table 3). In 2025, the fiscal adjustment is expected at 0.8 pp of GDP, bringing the overall fiscal deficit to 2.6 percent of GDP. With lower-than-projected GST base in 2024, which is expected to be carried out throughout the forecast horizon, the adjustment is projected to mostly rely on higher non-tax revenue (0.7 pp of GDP) thanks to the adoption of a clear dividend policy, the continued roll-out of the Non-Tax Revenue Act (NTRA), and a rebound of grants (0.2 pp of GDP). These additional revenues and continued rationalization of current expenditure will also allow to finance an increase in public investment—although less than envisaged in the Third review—and to cover the expected rise in interest payments amid rising domestic financing costs. So far in 2025, budget execution has been slower than planned, in part reflecting a recent cyberattack on IRC's IT systems, which has delayed the transfer of revenues to Treasury.

Text Table 3. Papua New Guinea: Fiscal Adjustment Plan, 2022-2028

(In percent of GDP)

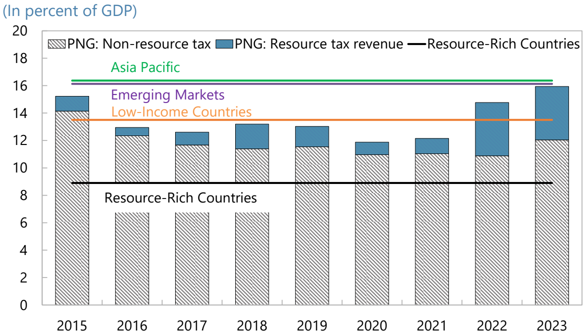
	2022	2023	2024		2025		2026	2027	2028
					Proj.				
			Prog. Third Rev.	*Latest*	*Prog. Third Rev.*	*Latest*			
Revenue and Grants 1/	**16.6**	**17.9**	**18.7**	**17.0**	**19.3**	**17.9**	**18.6**	**18.8**	**18.9**
Revenue	15.3	16.9	16.9	16.2	17.6	16.8	17.5	17.7	17.8
Resource revenue	3.9	3.9	3.3	3.5	3.7	4.2	4.5	4.6	4.5
Non-resource revenue	11.4	13.0	13.6	12.7	13.9	12.7	13.0	13.2	13.3
Non-resource tax revenue (% non-resource GDP)	16.4	17.1	17.6	16.9	17.8	16.8	17.5	17.4	17.4
Grants	1.3	1.0	1.8	0.9	1.7	1.1	1.1	1.1	1.1
Expenditure	**21.9**	**22.3**	**22.6**	**20.4**	**21.9**	**20.5**	**19.7**	**18.8**	**18.9**
Expense	17.9	19.0	18.6	17.8	18.1	16.9	16.3	15.4	15.3
Net acquisition of non-financial assets	4.0	3.3	4.1	2.7	3.8	3.6	3.4	3.4	3.7
Overall balance	**-5.3**	**-4.3**	**-3.9**	**-3.4**	**-2.6**	**-2.6**	**-1.2**	**0.0**	**0.0**
Primary balance	-2.9	-1.8	-1.5	-1.0	0.0	0.0	1.4	2.3	2.1
Non-resource net lending (+)/borrowing (-)	-9.1	-8.2	-7.2	-6.9	-6.3	-6.8	-5.7	-4.6	-4.5
Non-resource primary balance	-6.8	-5.7	-4.8	-4.5	-3.7	-4.2	-3.1	-2.2	-2.4
Fiscal adjustment	**-12.1**	**0.9**	**0.4**	**0.9**	**1.3**	**0.8**	**1.4**	**1.2**	**0.0**
Revenue and Grants	*1.5*	*1.3*	*0.8*	*-0.9*	*0.6*	*0.9*	*0.7*	*0.3*	*0.1*
Expenditure	*-0.1*	*0.4*	*0.4*	*-1.8*	*-0.7*	*0.1*	*-0.8*	*-0.9*	*0.1*

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.

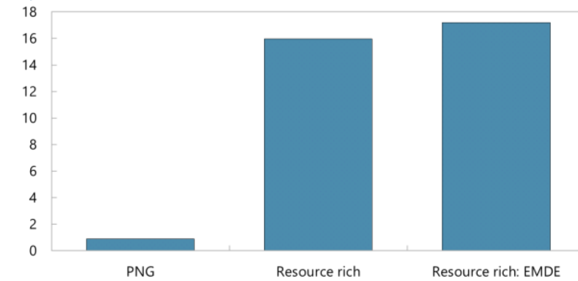
16. Over the medium term, further revenue mobilization—as envisaged in the authorities' Medium-Term Revenue Strategy (MTRS)—is central for creating the space needed for priority spending (MEFP ¶10). While PNG's tax-to-GDP ratio has recently benefitted from high commodity prices, non-tax revenues are very low, falling short of the levels in resource-rich peers. Ensuring that the extractive sector contributes its fair share to government revenue, including by implementing the recently adopted dividend policy for state holding companies and carefully assessing the impact of incentives granted in future resource project contracts, is critical to PNG's development. That said, given the volatility of hydrocarbon and mineral commodity prices, generating sustainable non-resource tax revenues is key to strengthening PNG's fiscal position and to mitigating fiscal risks. In this regard, the recently adopted ITA amendments will help simplify income tax rules—including by removing tax provisions that are no longer relevant and closing tax loopholes—thus contributing to higher tax compliance (SB fully implemented with delay). Broadening the corporate income tax (CIT) base by reducing inefficient and costly incentives, such as the Infrastructure Tax Credit and incentives granted under the Special Economic Zones Act (¶37), will also be critical in preserving tax revenue integrity; to that end, the authorities will carry out an in-depth analysis of existing CIT incentives and gaps, with FAD support (proposed new SB due by end-March 2026).

Papua New Guinea: Tax Revenue Cross-country Comparison
(In percent of GDP)



Sources: PNG Department of Treasury; WoRLD; and IMF Staff Calculations.

Papua New Guinea: Non-Tax Resource Revenue
(In percent of GDP)



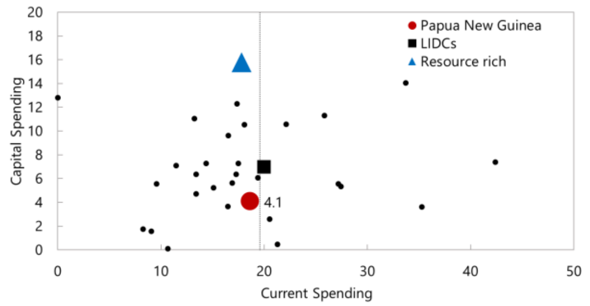
Sources: PNG Department of Treasury; WoRLD; and IMF Staff Calculations.
Note: PNG (2014-2023), Others (2013-2022). Non-tax resource revenues include proceeds from the extraction of minerals, oil, and gas, as well as lease payments, royalties, and other revenues related to the use of natural resources.

17. Continued implementation of revenue administration reforms will help improve compliance, enforcement, institutional capacity, and accountability (MEFP ¶11). Despite recent progress in the IRC's governance and in the availability of taxpayer information, key shortcomings remain in terms of registration data reliability, compliance, and performance monitoring of implementation according to FAD's 2024 Tax Administration Diagnostic Assessment Tool (TADAT) report. Separately, the MTRS emphasizes that reforms should focus on ensuring effective risk-based compliance, supported by the deployment of IRC's new IT systems and enhanced enforcement capabilities, including for customs revenue. To reinforce the IRC's accountability, the authorities have made significant progress in drafting amendments to the IRC Act to create an oversight board, and plan to build political and administrative consensus on the final details ahead of their submission to Parliament. Considering this, the deadline for the SB is proposed to be reset to end-July 2025.

18. To support fiscal repair and foster more inclusive growth, the authorities should contain current expenditure growth, raise expenditure efficiency, and increase critical social and capital spending (MEFP ¶12). PNG's current spending-to-GDP ratio is broadly similar to the average level in low-income developing countries and resource-rich peers, and its growth has remained contained over the past decade, in part due to curtailing payroll and goods and services spending by more than 1½ percentage points of GDP relative to the peak in 2021. However, capital spending is significantly lower and has stagnated since 2015, limiting PNG's ability to address critical infrastructure gaps (Annex V). The authorities should continue to limit the growth of non-essential spending items and redirect funds towards critical development needs. Concurrently, strengthening infrastructure governance will help maximize the economic outcomes derived from each Kina spent on public investment. With the support of FAD's upcoming Public Investment Management

Assessment (PIMA), the authorities are committed to enhancing public investment management practices, particularly in terms of planning, project appraisal and selection, management of ongoing projects, and maintenance of infrastructure assets.

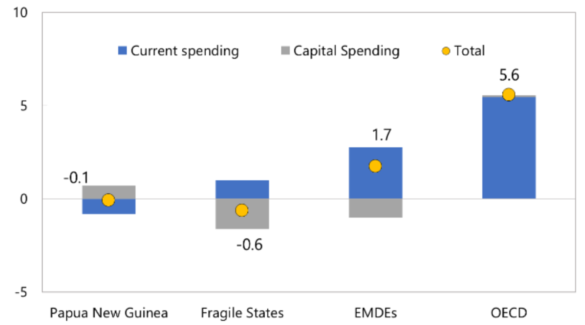
Papua New Guinea: Current and Capital Spending
(In percent of GDP, 2024)



Sources: PNG Department of Treasury; WEO; and IMF Staff Calculations.

Note: The dots are fragile states (FS); the dotted line is the average of FS excluding Kiribati and Marshall Islands. The resource rich country excludes Nauru.

Papua New Guinea: Change in Total Spending
(In percent of GDP, 2015-2024)



Sources: PNG Department of Treasury; WEO; and IMF Staff Calculations.

19. Public financial management reforms are critical to improve expenditure efficiency.

- ***Payroll management.*** The authorities have made strides in enhancing payroll management in the National Capital District (NCD), although capacity and resource limitations have slowed the data cleansing process (SB partially implemented). The Department of Personnel Management has initiated a nationwide data cleansing exercise for teachers and will continue the payroll data cleansing exercise in sectors other than the economic and administrative sectors, in the NCD and other provinces (MEFP ¶13)

- ***Expenditure management and controls.*** The authorities remain committed to clear the stock of accumulated domestic arrears (MEFP ¶14). No further payroll arrears were accumulated as of end-December 2024 and domestic debt has continued to be paid on time (IT). To help prevent the accumulation of new goods and services arrears, the authorities should continue to improve commitment accounting and multiyear contract management, fully activate commitment controls for all types of expenditure, and enable a more automated and timely monitoring of budget execution (MEFP ¶15).

- ***Debt management.*** To enhance debt management, the authorities are 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 (ongoing SB by end-September 2025). To improve the transparency of auctions and the predictability of issuances of government securities for market players, the Treasury and the BPNG will ensure that the auction calendar, as well as auction results are publicly available, with MCM and World Bank support (**proposed new SB by end-September 2025,** MEFP ¶18). They will also work, with Fund support, on consolidating and strengthening the legal framework for debt management to make it more conducive to the development of the local currency bond primary and secondary markets.

- ***Cash management.*** While the authorities have actively reduced the consolidated balance of trust accounts since the start of the ECF/EFF arrangement, they still represent PGK 0.6 billion (around 0.4 percent of GDP) as of end-December 2024, challenging the authorities' ability to manage cash efficiently. As a well-designed TSA will help reduce the need for borrowing or for access to the BPNG's Temporary Advance Facility (TAF),[7] the authorities remain committed to formulate a sequenced implementation plan for the TSA, supported by FAD TA (ongoing SB by end-December 2025, MEFP ¶16).

20. State-owned enterprises (SOEs) should be properly compensated to improve public service delivery and mitigate fiscal risks. The difficult financial situation of some SOEs, particularly in the power and water sector, has prevented them from delivering reliable utility services and from expanding and maintaining infrastructure. This partly stems from being only partly compensated for providing community services and inability to ensure full cost recovery. Reviewing sectoral price-setting policies, with ADB support, is critical to strengthen efficiency, ensure SOEs' financial viability, and improve the reliability of service delivery (MEFP ¶29).

21. 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 liquidity risk associated with the bullet payment due in 2028 on PNG's existing Eurobonds and higher official bilateral and multilateral debt service payments in the first half of the forecast horizon leads to multiple 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 to GDP. The authorities aim to address refinancing risks for domestic debt, including by issuing longer-term securities when possible.

22. The authorities remain committed to a prudent external borrowing policy to preserve debt sustainability. Complementing fiscal consolidation efforts with continued prioritization of concessional loans and grants, alongside semi-concessional financing for critical projects, will support debt sustainability. More recently, the authorities adapted their borrowing plans and adjusted domestic interest rates amid changing market conditions while incorporating greater reliance on bilateral budget support in 2024 than initially planned. Still, there was a significant underutilization of the PV limit on new external borrowing set for 2024 amid the delay in signing of some loans. For 2025, the PV limit on new external borrowing remains set at USD 810 million until end-June (continuous QPC), while it is proposed to be modified thereafter to USD 1.66 billion (MEFP ¶19), to allow for some of the unsigned loans in 2024—including external project and budget support loans and guarantees—to be signed this year, with the DSA acting as the critical anchor.

23. Strengthening PNG's rules-based fiscal framework would support the medium-term fiscal consolidation (Box 1, Selected Issues Paper). The authorities' fiscal repair strategy envisions a sharp consolidation path that halves the public debt (as a share of GDP) by 2030 and brings it to zero by 2033. These ambitions may overly constrain the government's ability to address PNG's

[7] The NEC decided in December 2024 to raise the ceiling for accessing the TAF from PGK 1.5 to 2.0 billion. The requirement to bring the TAF balance to zero by year-end remains unchanged.

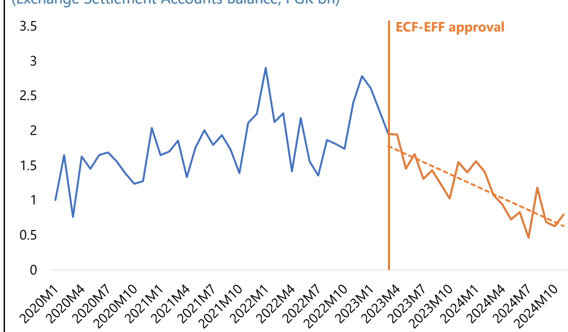
significant development needs. Staff's analysis suggests that a debt anchor of between 30 to 40 percent of GDP would ensure fiscal sustainability while embedding a sufficient buffer against shocks. The primary fiscal balance—while having a limited ability to deliver macroeconomic stabilization and preserve spending quality—would be an appropriate operational fiscal rule to facilitate a convergence to the debt anchor, as it is easy to communicate, compute, and monitor. To support the effective implementation of these fiscal rules, PNG would need to invest in institutional capacity and improve the quality of fiscal data.

Authorities' Views

24. The authorities emphasized commitment to their budget repair strategy and reiterated their plan to achieve a balanced budget by 2027. They viewed the implementation of the NTRA and adoption of a clearer dividend policy as critical to boost non-tax revenues, and plan to further contain the growth of non-essential spending items while redirecting funds towards critical development needs. Despite facing liquidity constraints in the first few months of 2025, largely due to the cyberattack against IRC's IT system, the authorities remain committed to achieving their deficit target for this year, which may require the adoption of new measures in the coming months. They highlighted that the adoption of the ITA amendments in March 2025 was a major milestone in the simplification of tax legislations and administration and expect it to support compliance and revenue mobilization over the medium term. The authorities also plan to review tax expenditures and incentives as an initial step towards broadening the corporate tax base, and address tax administration shortcomings as identified in the recent TADAT. They plan to undertake a wide range of critical public financial management reforms to strengthen expenditure efficiency, with IMF TA support, including the shift to a TSA and infrastructure governance enhancements. Acknowledging the challenges faced by SOEs in delivering reliable public utility services, especially in the power sector, the authorities are committed to reviewing sectoral price-setting policies to improve their financial viability. They welcomed staff's advice on options to strengthen the rules-based fiscal framework, which could help to lower debt to a safe level over the medium term.

B. Monetary, Exchange Rate, and Financial Policies

Papua New Guinea: Excess Liquidity
(Exchange Settlement Accounts Balance, PGK bn)



Sources: BPNG; and IMF Staff Calculations.

25. BPNG has made significant headways in tackling longstanding economic challenges by steadily implementing its Roadmap (MEFP ¶21). Supported by a shift to a crawl-like arrangement in January 2024, the Kina has become more flexible, halving the real overvaluation relative to pre-program estimates.[8] The Kina's depreciation,

[8] After a brief suspension of the arrangement for a few weeks, in January and early February 2025, due to delays in its appointment, the MPC confirmed a revised annual rate of crawl of 6 percent for 2025, consistent with the framework approved in December 2023.

combined with a range of measures from BPNG over the past twelve months, including: (i) increased FX interventions, (ii) gradual easing in some exchange restrictions (including the removal of the tax clearance certificate requirement for certain types of transactions), (iii) the reiteration of the existing requirement to prioritize essential foreign exchange orders (October 2024), and (iv) the introduction of a weekly FX auction mechanism for FX intervention to cover pending essential FX orders (May 2024), have alleviated FX shortages and reduced import compression. In addition, thanks to the monetary tightening, which was supported by introduction of a new liquidity management toolkit,[9] excess liquidity has been largely mopped up, paving the way for stronger monetary policy transmission. Lastly, the 2024 amendments to the Central Banking Act (CBA), which included price stability as the BPNG's primary objective, and the creation of a Monetary Policy Committee, independent of BPNG Board, have reinforced the financial independence, mandate, and autonomy of BPNG, although some weaknesses identified in governance and autonomy remain (see ¶53).

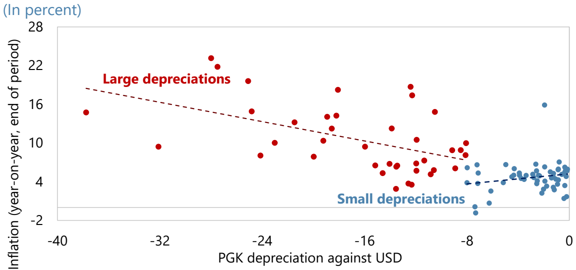
26. The BPNG should continue narrowing the Kina's misalignment and facilitate the return to a market-clearing rate. The authorities remain committed under the program to a return to Kina's convertibility by end-2026 (MEFP ¶22), which—according to staff's analysis—would have meaningful impact on GDP per capita and poverty rates over the longer term. The gradual adjustment process, underpinned by the crawl-like arrangement, is meant to limit inflationary pressures from the depreciation of the Kina; indeed, while the passthrough to inflation is high for large exchange rate movements,[10] there is no clear correlation for smaller changes. That said, delaying the resolution of the overvaluation may further deter foreign investors, potentially extend FX shortages for longer, with sustained FX interventions and adverse effects on PNG's growth and development. While remaining committed to the crawl-like arrangement, the BPNG is considering to shift away from a peg to the USD to a trade-weighted basket of currencies, particularly given the recent volatility of the former. While such transition could prove more effective in tackling the overvaluation and provide a stable nominal anchor for policymaking, it should be supported by capacity building to ensure appropriate design, monitoring, and communication (MEFP ¶22).

27. The monetary policy stance should be further tightened to restore consistency with the exchange rate arrangement. The KFR stands significantly lower than the policy rate implied by interest parity. The BPNG should hence continue to tighten the monetary policy, through an increase in the KFR, to ensure consistency with the exchange rate arrangement, reduce FX pressures, and keep inflation expectations anchored. This tightening should be done in a non-disruptive manner, including to allow the government to adjust to the new financing conditions. Concurrently, the CRR ratio should be recalibrated to decrease the amount of liquidity captive and unremunerated, enhance liquidity management practices, particularly among domestic banks, and allow for a greater reliance on interest rates to achieve a tighter monetary policy stance. Going forward, the KFR should be seen as the main operational tool for monetary policy making.

[9] These include the fixed-rate full-allotment auction of 7-day CBB, the fixed volume competitive auction of 28-day CBB, the partial reserve averaging, and an overnight interest rate corridor (at +/- 150 bps around the KFR)

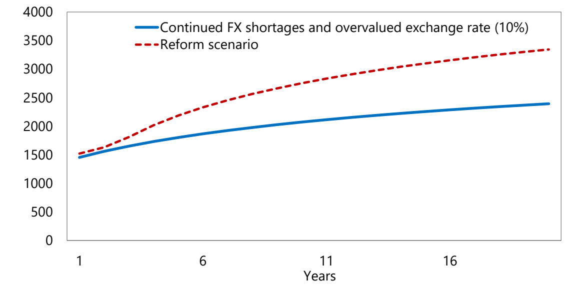
[10] According to IMF estimates (2023), after a year, a 10 percent depreciation of the nominal effective exchange rate leads to a 4 to 5 percentage-points increase in inflation.

Papua New Guinea: Exchange Rate Passthrough and Depreciation Size
(In percent)



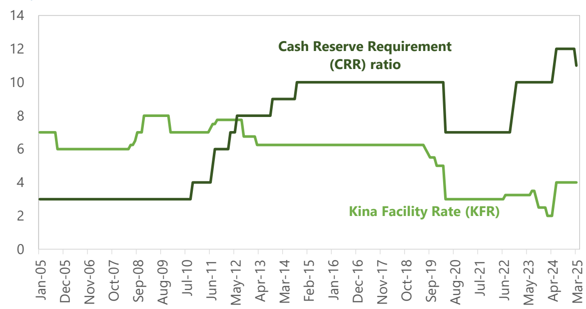
Source: IMF staff estimates based on authorities' data.
Note: 1990Q1 to 2024Q4. A large depreciation of the kina against the US dollar is defined as a decrease of more than 8 percent in the exchange rate over the considered year.

Papua New Guinea: GDP per Capita Projection Under FX Shortage Alleviation Scenario
(In USD)



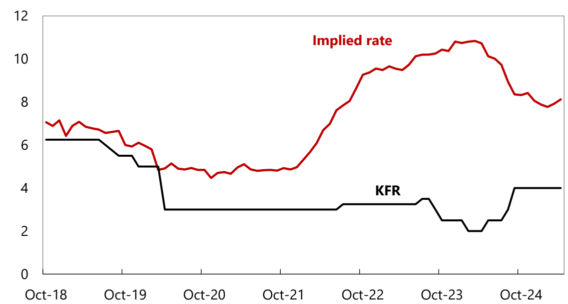
Source: IMF staff estimates based on BPNG, NSO and WB data, relying on a neoclassical growth model.

Papua New Guinea: Kina Facility Rate and Cash Reserve Requirement Ratio
(In percent)



Source: BPNG.

Papua New Guinea: Implied Interest Rate from Crawling Peg
(In percent)



Source: IMF staff estimates based on BPNG data.

28. **Consistent with the Roadmap, the BPNG should continue with the gradual elimination of FX rationing measures to support the return to Kina convertibility (MEFP ¶23)**. The weekly FX intervention, implemented since June 2024 in the form of multiple-price FX auction mechanism, has helped to reduce waiting times for access to FX and has paved the way for a more competitive interbank market. With about 30 percent of the allocated FX intervention amount being unused in the first quarter of 2025, the BPNG should explore with IMF TA the options for extending the FX intervention budget to non-essential current account orders, while being compliant with the IMF's MCP policy. Updated estimates of the FX pent-up demand from dividends would help calibrating the intervention amounts and, if needed, establishing regulations to space their repatriation. The requirement for authorized foreign exchange dealers to use all FX flows to clear essential orders first should only be relaxed once the market can clear essential orders on its own. When FX rationing measures are gradually eased, the BPNG should monitor cautiously residents' FX portfolio outflows, and adjust monetary policy to limit potential exchange rate pressures.[11]

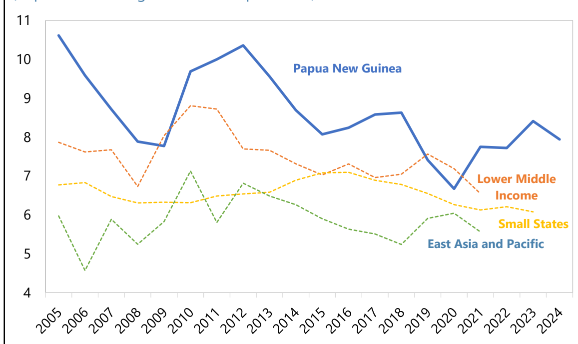
29. **While significant progress has been made in reforming monetary policy operations, further refinements are needed to enhance liquidity management and improve monetary policy transmission (MEFP ¶25).** To preserve the intermediation function of commercial banks and

[11] Capital Flow Management measures on outflows could be used if crisis (or imminent crisis) conditions materialized or if outflow liberalization was premature.

support financial sector development, the BPNG limited the access to CBB auctions to reserve-maintaining and supervised financial institutions (SB due by end-January 2025 met). The BPNG has also commenced regular issuance (every four weeks) of a 28-day CBB in competitive auctions to continue absorb structural excess liquidity (SB due by end-February 2025 met). With MCM support, the BPNG has started developing a liquidity forecasting framework and liquidity monitoring tables, to enable the preparation of weekly forecasts for the MPC (ongoing SB by end-July 2025). To complement these new measures, the BPNG should further clarify with the banks how reserve averaging is calculated to encourage its use and enhance the predictability of the overnight repo and reverse repo operations.

30. The authorities should actively encourage financial sector development while containing financial stability risks.

Papua New Guinea: Interest Rate Spread
(In percent, lending rate minus deposit rate)



Source: IMF IFS.

- ***Financial sector development.*** As fiscal consolidation continues, space for private sector credit, which is critical for development, opens up. Yet, the limited size and high concentration of the banking sector hamper competition and keep interest rate spreads elevated, thus discouraging potential borrowers. In this regard, the recent issuance of banking licenses to three banks[12] is a step in the right direction. To support the emergence of an interbank market, the authorities plan to align the draft interbank Master Repo Agreement with the Global Master Repurchase Agreement standard to ensure enforceability and share it with commercial banks with a formal letter explaining the benefits of adopting it (**proposed new SB by end-December 2025**, MEFP ¶25). This could help balance the distribution of liquidity across the banking sector and hence support more lending to the private sector.

- ***Financial stability (MEFP ¶27).*** The BPNG has embarked on several reforms guided by the Financial Sector Development Strategy 2018-30, which includes development of macroprudential policy framework, adoption of several banking regulations, launch of a new bank rating model, and modernization of its payment systems. While some actions have been taken, the recent Financial Sector Stability Review (FSSR) found that the BPNG should further improve the effectiveness and impact of the systemic risk analysis and macroprudential policymaking in the areas of risk reporting, stress testing, public communication, and internal organization. With technical assistance from the IMF, the BPNG is working to develop and issue emergency liquidity assistance (ELA) guidelines, consistent with lender of last resort regime introduced under the amended CBA (**proposed new SB by end-December 2025**).

[12] Namely, Credit Corporation Finance Limited, National Banking Corporation and TISA Bank Limited.

Authorities' Views

31. **The authorities remain committed to continue implementing their Roadmap to further modernize monetary and exchange rate policy frameworks and alleviate FX shortages.** They view the current crawl-like arrangement along with a gradual and prudent removal of FX rationing measures as critical to facilitate greater exchange rate flexibility and return to Kina convertibility. In light of the recent easing of FX shortages particularly for essential orders, the BPNG agreed that there is now some room to help address FX orders for non-essential current account transactions, using the FX intervention budget. While it has kept the policy rate unchanged so far, given moderating inflationary pressures, the MPC intends to remain vigilant and adjust the monetary policy stance to keep inflation under control and support the exchange rate arrangement. The authorities highlighted the establishment of the MPC and the publication of MPC meeting minutes and biannual economic outlook reports as important milestones in enhancing the formulation and communication of monetary policy decisions. With IMF support, the BPNG committed to further refining its liquidity management toolkit to help improve monetary transmission, and to taking steps to address FSSR recommendations to ensure the resilience and soundness of the financial sector.

C. Governance, Anti-Corruption and AML/CFT Frameworks

32. **Further strengthening the anti-corruption framework will help improve policy outcomes and benefit economic activity.** Despite meaningful improvement in the past decade, corruption remains pervasive in PNG (Annex V). The adoption in 2021 of the ICAC Act marked an important change in PNG's policies to prevent and combat corruption, and steps have been taken since then to operationalize the ICAC, including by allocating resources, appointing a commissioner and deputies, hiring and training new staff, and adopting regulations (MEFP ¶28).[13] To enhance cooperation, the ICAC has signed memoranda of understanding (MoUs) with other anti-corruption agencies, including a bilateral one with the BPNG's Financial Analysis and Supervision Unit (FASU) (SB partially implemented with delay) and two multilateral ones to create new coordination mechanisms on anti-money laundering (AML) policies—the AML Joint Task Force (AMLJTF) and the Asset Recovery ML Operations Committee (ARMLOC).[14] Positions in the ICAC's oversight committee, which will align ICAC's governance with best-practice standards, have been advertised in March 2025, but additional time is needed to finalize the selection and appointment process (SB delayed). The deadline for this SB is proposed to be reset from end-March to **end-September 2025**.

33. **Greater transparency about the financial dealings between SOEs and the government will help improve economic outcomes.** The recent adoption of a clear dividend policy by the NEC for all three state holding companies will help ensure that SOEs contribute their due share to the government's revenue (SB fully implemented with delay, MEFP ¶29). Publication of financial

[13] As of early February 2025, the ICAC has received 239 potential cases, and has launched investigations.

[14] Staff agrees with the authorities' view that such multilateral MoUs are a more effective way to achieve the objective of interagency cooperation and exchange of information than bilateral MoUs. For that reason, the deadline for the SB on the ICAC's MoUs is not proposed to be reset.

statements for Kumul Petroleum and Kumul Minerals should also be urgently restored, in line with the National Policy for Transparency and Accountability in the Extractive Sector—PNG's transposition of the Extractive Industries Transparency Initiative standards.

34. Enhancing the anti-money laundering and countering the financing of terrorism (AML/CFT) framework requires coordinated efforts to avoid increasing risk premia in the economy (MEFP ¶30). The 2024 mutual evaluation report (MER) by Asia/Pacific Group (APG) on Money Laundering[15] recognizes the BPNG's FASU ability to carry out strategic analysis and disseminate financial intelligence. However, limited capacity and institutional resources in law enforcement agencies undermine the effective investigation and prosecution of ML/TF. There are also challenges in the effective implementation of the AML/CFT measures, in particular in some specific sectors such as forestry and by non-bank financial institutions (NBFIs) and designated non-financial businesses and professions (DNFPBs). Given the high money laundering risk associated with logging activities, the authorities are committed to publishing the forestry sectoral risk assessment, which will include clear guidance and recommendations on improving sectoral compliance with AML/CFT requirements (**proposed new SB by end-December 2025**). In addition, and in consultation with Fund staff, they will take further steps to improve their AML/CFT framework by including greater guidance on the treatment of low-risk customers, NBFIs, lawyers, accountants, real-estate agents, and precious metal dealers. They will also provide further guidance on risk assessments, politically exposed person obligations, and reporting of suspicious transactions (**proposed new SB by end-December 2025**). The authorities should continue building on the recently established coordination mechanisms, such as the National Coordinating Committee (NCC) on AML/CFT, the AMLJTF and the ARMLOC, and advance their Strategic Implementation Plan to help address the priorities identified in the MER.

Authorities' Views

35. Enhancing governance and AML/CFT frameworks is viewed by the authorities as a top reform priority to support more inclusive economic growth. They are resolute to swiftly address the critical shortcomings in PNG's AML/CFT framework identified in the MER, guided by their strategic implementation plan, and underscored the need for technical support from development partners. While satisfied that the ICAC is now effectively investigating corruption cases, the authorities acknowledged that its full operationalization hinges on sustaining appropriate and stable budget funding and on operationalizing the ICAC Act. To improve the transparency of financial information about SOEs, the government committed to restoring the timely publication of the financial statements of state holding companies, particularly in the resource sector.

D. Macro-Structural Policies

36. Improving PNG's trade competitiveness and attractiveness for foreign investment will help PNG achieve higher economic development (Annex V). PNG's exports are concentrated on a

[15] PNG has a one-year observation period, ending in October 2025, to work with APG to address deficiencies before possible public identification and formal review by the FATF.

few products—mostly hydrocarbon, mining and agricultural commodities—and markets, with 90 percent of exports directed to Asia-Pacific countries. Addressing the longstanding structural impediments, as intended by the authorities' committee on Foreign Exchange Repair, would enhance PNG's non-resource sector's competitiveness, increase FX returns from the resource sector, broaden the export base, and increase foreign investment—all of which needed to support a better balance between FX demand and supply. While restoring the convertibility of the Kina is also critical in that respect (¶26), broad-based reforms are needed to:

- ***Improve the business environment,*** including by closing the infrastructure gap and increasing public investment efficiency (¶18), strengthening governance (¶32-34), developing domestic and skilled labor resources, and ensuring adequate law and order.
- ***Remove barriers to trade*** by simplifying customs regulations and procedures, lowering transportation costs, and harmonizing and simplifying regional trade agreements.
- ***Enhance existing export capacity***, particularly for agricultural commodities, by upgrading the quality of export products, facilitating greater integration into regional value chains, and improving financial inclusion (¶38).

37. Steps to increase economic and export diversification would also be beneficial. Increased economic diversification would help improve the economy's resilience to shocks, support greater growth inclusiveness, and potentially reduce Dutch disease risks when large-scale resource projects become operational. Promoting investment in new sectors or products where PNG has comparative advantage or potential (e.g. tourism, or broader Blue Economy – see Box 3) and expanding the range of trading partners to avoid concentration risks could help in this regard. The PNG authorities have started creating special economic zones (SEZ) to help industrialize and diversify the economy into new areas such as tourism and downstream processing. While they may be helpful in achieving these goals, SEZs should remain focused on non-traditional export sectors, and avoid leading to large foregone revenue or domestic profit shifting which could threaten revenue integrity.

38. Efforts to promote financial literacy and reinforce gender equality are central to reducing poverty and inequality. Poverty and access to basic services have not materially improved over the past decade, despite significant resource-driven growth.[16] The authorities should stay the course in implementing the priority policies outlined in their Poverty Reduction and Growth Strategy (PRGS) to reduce poverty and make growth more inclusive. Additional priorities should include:

- ***Financial inclusion.*** The authorities should continue implementing their Financial Inclusion Strategy for 2023-2027, particularly in rural areas. Key reform areas include launching capacity building initiatives to strengthen financial literacy and education, increase access to microfinance in the agricultural sector, and strengthening the regulatory environment, consistent with

[16] See Baxi P., D. Naidoo and S. Tandon. 2024. "How much of economic growth trickles down to the population in resource-rich countries? Evidence from Papua New Guinea".

AML/CFT requirements. Over the longer term, investing in digital infrastructure, including central bank digital currency, would also help to improve access and delivery of financial services.

- ***Gender equality (Box 2).*** PNG faces significant gender gaps, which are wider than income-level peers, particularly regarding access to formal and skilled labor, wage levels, access to health and education, and legal rights. Adding to policies aimed at developing the formal sector and reducing infrastructure gaps, the authorities should focus on (i) supporting the entry of women into the formal labor market by developing family and household care policies—which would also benefit men, (ii) investing in maternal health campaigns, and (iii) bridging legal gaps in terms of childcare, entrepreneurship, and women's safety.

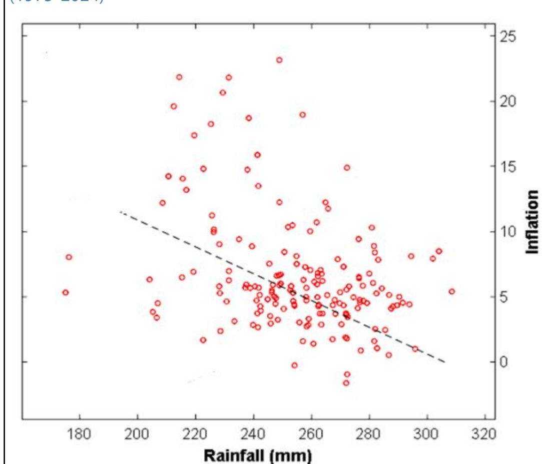
Authorities' Views

39. The authorities are gearing up their efforts to improve competitiveness and reduce poverty. They agreed that while restoring kina convertibility is necessary to reduce the mismatch between FX supply and demand, this should be part of a multipronged strategy to make PNG more competitive and attractive for foreign investment. They concurred with the broad reform areas identified by Fund staff (Annex V), but noted the need for a careful sequencing and costing process to ensure effective implementation. They highlighted the need to expand the production of agricultural exports, increase FX returns from resource projects, and improve the business environment—all of which are critical to support inclusive growth. They agreed that a careful balance should be struck between attracting new foreign investment and export activities through SEZs and preserving revenue integrity. The authorities also raised the importance of advancing financial deepening and literacy reforms, especially in rural, remote areas, in line with their Financial Inclusion Strategy, and promoting gender equality, including through actions to reduce gender-based violence.

E. Climate Change Policies[17]

40. PNG's exposure and vulnerability to the effects of climate change are creating additional structural macroeconomic challenges. PNG already ranks among the countries most at risk from natural disasters, combining high physical exposure of its population with very limited coping and adaptive capacities. The expected increases in temperatures and precipitation and rise in sea levels could cause more frequent and severe climate-related natural disasters (including droughts and landslides) with adverse effects on economic activity, inflation, the fiscal position, and the balance of payments in the

Papua New Guinea: Inflation and Precipitations
(1975-2024)



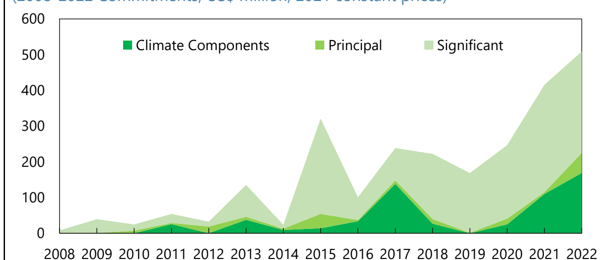
Source: IMF staff estimates based on university of East Anglia and BPNG data.

[17] For a full account of PNG's key climate change challenges and reform priorities, see Annex II of IMF Country Report No. 24/344.

medium to long run. While greenhouse gas emissions in PNG are very low, they have been on the rise largely because of forest degradation, which also threatens the livelihoods of local communities and biodiversity.

41. PNG's climate commitments are ambitious, but their implementation suffers from limited capacity and resources. Key targets set in PNG's climate strategies include carbon neutrality in the energy sector by 2030, complete carbon neutrality by 2050, and enhanced carbon absorption from forest resources. Reaching these targets is dependent on PNG's ability to access additional climate finance. Despite a rapid acceleration in climate finance commitments from multilateral and bilateral donors in recent years, PNG's actual access to climate finance remains insufficient to cover adaptation needs, estimated by the IMF (2021) at a minimum of 2 percent of GDP annually until 2030. Disaster risk financing is also insufficient, with limited budget allocations and no *ex-ante* financing mechanisms. Finally, despite efforts to strengthen the institutional and legal framework for climate policies, including with the adoption of the Climate Change Management Act and creation of the Climate Change Development Agency (CCDA), the limited mainstreaming of climate considerations in decision-making have hindered policy effectiveness.

Papua New Guinea: Climate-Related Development Finance
(2008-2022 Commitments, US$ million, 2021 constant prices)



Source: OECD-DAC, based on Rio markers methodology.
Note: The "principal" category corresponds to activities where climate adaptation/mitigation can be explicitly identified as being fundamental. The "significant" category corresponds to cases where climate adaptation/mitigation are important considerations, but not the principal reason for undertaking the activity. The "Climate components" category corresponds to explicitly climate-focused activities within wider projects.

42. Creating an enabling environment for climate finance, particularly for the private sector, is a prerequisite to effectively scaling it up (MEFP ¶35). The authorities are currently working with the International Finance Corporation (IFC) on developing technical screening criteria (TSC) for the renewable energy, energy efficiency, and clean transportation sectors of the authorities' Green and Inclusive Taxonomy. Supervisory guidelines will be developed and formalized subsequently for mandatory regulatory reporting of banks' exposures in these three priority sectors, which will exclusively rely on the Taxonomy's TSC, along with implementation timelines (RM7 for March 2026). To improve investor information and awareness about climate finance, the GFC is working on setting up a comprehensive database of climate projects (RM8 for September 2026).

43. Strengthening disaster risk management (DRM) and financing is a critical policy priority to mitigate adverse effects on the economy (MEFP ¶33). The authorities are carrying out a stocktaking exercise of current hazard mapping systems and are on track to publish the existing data on a new portal to be made available to the general public (RM1 for September 2025). They also plan to modernize the legal and institutional framework for DRM (RM2 for March 2026). To enhance the predictability and availability of resources for DRM, the authorities are committed to developing and publishing a Disaster Risk Financing Strategy (RM3 for September 2026).

44. Integrating climate considerations in infrastructure governance practices and encouraging maintenance efforts are key to improving the climate resilience of infrastructure (MEFP ¶34). The authorities have developed a methodology for climate disaster risk screening with

Fund support, which—starting from 2026 budget process—is now required for large projects prior to their inclusion in budget submissions (RM4 for March 2025, met).[18] Given the criticality of routine and capital maintenance of infrastructure assets for an effective adaptation strategy, the authorities will pilot the incorporation of climate considerations in maintenance standards and costing applied to national roads (RM6 for September 2026), before expanding the approach to other types of assets. Lastly, building on the CPIMA recommendations, the authorities will adopt public investment management regulations incorporating climate considerations throughout the capital project cycle (RM5 for March 2026).

45. Well-designed fiscal incentives to preserve forest and ocean resources and increase energy efficiency will benefit the socio-economic development of local communities (MEFP ¶36).

- ***Forest and ocean preservation***. As protecting forest resources can conflict with other objectives, such as the expansion of cultivable land and rural development, the authorities are undertaking a review of existing royalties, taxes, and levies in the logging sector (RM10 by September 2025) to support mitigation efforts while ensuring an equitable distribution of benefits. Stronger regulation and coral reef preservation efforts are key to preventing overfishing and ensuring the sustainability of fish resources (Box 3).

- ***Energy efficiency.*** Fuels with higher carbon content dominate PNG's energy mix, despite being more expensive than alternatives. To gradually incentivize more carbon-efficient energy sources, while taking social considerations into account, the authorities are committed to amend the Excise Tariff Act and shift the tax burden towards fuels with higher carbon content (RM9 for March 2025, delayed). This politically sensitive RM will however be assessed at the next RSF review, given the authorities' request for additional time to carefully review calibration options and possible additional measures to support lower-income and vulnerable households, with Fund advice. The authorities' plans to expand on-and off-grid renewable energy would complement these efforts.

Authorities' Views

46. The authorities recognized the importance of effective implementation of climate policies and mobilization of additional climate finance. They highlighted the progress achieved towards meeting PNG's climate policy objectives, aided by the CCDA's strong coordination efforts, but acknowledged that future success will depend on mobilizing additional resources, including from the private sector. In this regard, they stressed the importance of the RSF reform measures in creating an enabling environment for climate action. The authorities are proactively exploring a range of innovative options to scale up climate finance, in partnership with development partners, following up on the recent green finance summit and climate finance roundtable (March 2025).

[18] Projects are expected to go through a simplified screening in the 2026 budget process, with a more thorough approach applied in the 2027 budget onwards, when it will also benefit from the implementation of RM1, which will enhance access to hazard mapping data, and from additional Fund training delivered to departments and agencies.

F. Statistics and Data Quality

47. Improving data quality, timeliness and consistency will support better policymaking. While reporting has been strengthened in recent years, in part to support program monitoring, for which data has been appropriate, data provision faces shortcomings that somewhat hamper surveillance, particularly in terms of frequency and timeliness, coverage of national accounts, external sector statistics and price data, and intersectoral consistency (Annex IV). As these shortcomings are largely attributed to capacity limitations, the authorities are expected to continue receive extensive CD support from the Fund and other development partners to reduce data gaps (MEFP ¶31).

Authorities' Views

48. The authorities are committed to enhancing data quality, benefitting from extensive technical support from development partners. The authorities broadly agreed with the data adequacy assessment (Annex IV), and highlighted that significant progress was recently recorded in the quality of external sector, monetary, and government finance statistics, in part thanks to CD support from the IMF and other partners. They committed to continuing requesting CD to strengthen data adequacy, for instance to produce expenditure-based GDP and international investment position statistics, while also noting the need to strengthen absorptive capacity. The upcoming release of the census is expected to help better assess the distribution of population and improve resource allocation. The National Statistics Office is planning the first household survey in more than a decade—which could support the rebasing of the GDP and the consumption basket—although stressed that it requires additional funding to proceed.

PROGRAM MODALITIES AND OTHER ISSUES

49. The authorities request a waiver for the non-observance of the continuous QPC on new external arrears, which was breached due to the call on a legacy government guarantee (¶13). Staff supports this waiver, based on the small size of these arrears and their clearance on 30 April 2025. Direct government guarantees to entities with private sector participation are significantly limited since 2021 when the new State Guarantee Policy was adopted and introduced a mandatory approval by the Treasury (MEFP ¶20). To avoid unexpected calls on government guarantees, the Treasury will regularly reach out to guarantee beneficiaries to monitor the timeliness of payments and will check the comprehensiveness of its records on legacy guarantees. Additionally, the authorities are working on an interface between their debt reporting system (Meridian) and the IFMS to automate the transfer and reconciliation of debt data across the two IT systems and limit risk for human error (ongoing SB by end-September 2025, MEFP ¶18).

50. Program monitoring and conditionality. ECF-EFF and RSF program performance will continue to be monitored through semi-annual program reviews based on QPC and ITs (Table 11), SBs (Table 12) and RMs (Table 13). The ceiling on the PV of external debt is proposed to be modified to USD1,660 million for the second half of 2025 (continuous QPC, MEFP ¶17 and TMU ¶21). The floors on non-resource tax revenue for the 2025 test dates are proposed to be revised down on account of the lower-than-expected base in 2024 (IT). Six new SBs are proposed, adding to the three SBs already ongoing due for the next two reviews. The deadlines for the submission of amendments to the IRCA and for the appointment of the ICAC's oversight committee are proposed to be reset to end-July and end-September 2025, respectively.

51. 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. Assistance from the Fund continues to play a catalytic financing role with other multilateral and bilateral partners. The reduction in bilateral budget support reflects dynamics in donor countries and staff do not expect this to result in new BoP pressures. However, this reduction has increased the Fund burden share (through the ECF/EFF arrangements) from an average of 34.7 percent at program approval to 40.8 percent across the program.

52. 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 RSF arrangements, will peak in 2026 at 4.3 percent of GDP, equivalent to around 9.2 percent of exports of goods and services and 40.2 percent of gross international reserves (GIR). Total debt service to the Fund will peak at 1.1 percent of exports of goods and services in 2030, and at 5.6 percent of GIR in 2029 (Table 8). Downside risks include weaker external demand for PNG's exports, volatility in commodity prices, and natural disasters. Risks to capacity to repay are partially mitigated by a commitment to fiscal sustainability and macroeconomic stability in the medium term. In addition, macroeconomic projections are built on conservative assumptions regarding prospects of new resource projects, which are not part of the baseline projections.

53. Safeguards assessment. Since the completion of the update safeguards assessment in October 2023, vacant BPNG management and board positions have been filled, and the amended CBA has taken effect in late 2024, strengthening some aspects of the central bank autonomy and governance. However, other weaknesses in these areas remain. Furthermore, while the BPNG took steps to improve transparency and published its FY2023 financial statements in October 2024, the timeliness of financial reporting remains a challenge, and the internal audit function needs to be strengthened. The BPNG is actively working to address these weaknesses and implement remaining safeguards recommendations, including by accelerating the publication of the FY2024 financial statement and intending to formally appoint its chief internal auditor shortly (MEFP ¶26).

54. 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 Country Engagement Strategy. Regular program monitoring meetings with the authorities, both in-country via the Resident Representative Office (RRO) and virtually, have taken place to ensure focus on program targets and commitments. The RRO engages regularly with public and private sector stakeholders, and with the media, to provide an accurate account of the progress towards the program's objectives.

55. Capacity development. Ongoing and planned IMF CD activities are closely integrated into the program. Since 2024, FAD has provided extensive CD on expenditure controls and cash management, income tax policy reforms, revenue administration (TADAT) and climate policies (CPD, CPIMA) and expected FAD CD topics for 2025 include TSA implementation, CIT incentives and public investment management; ICD has delivered macro-fiscal forecasting TA to the Treasury and BPNG; MCM support has included a FSSR, peripatetic TA for the implementation of the Roadmap, and TA on local currency bond market development (with the World Bank), while TA on ELA is also planned to support program reforms; and STA has delivered TA for improving the quality of external sector statistics. PFTAC support has included TA on various topics including national accounts, macroeconomic forecasting and prudential rules. IMF TA is complemented by other partners, including on the anti-corruption framework (UN and EU), governance of SOEs (ADB), national accounts and AML/CFT (Australia). The implementation of all RMs under the RSF arrangement is benefitting from extensive CD coordinated between development partners (Table 13).

STAFF APPRAISAL

56. The economic outlook remains positive, despite continued structural challenges. Real growth is expected to rise to 4.7 percent in 2025, supported by increased production in the resource sector and improved access to FX, while headline inflation is expected to rebound to nearly 5 percent from a historical low base in 2024, mainly driven by increases in betel nut prices and the waning effect of education subsidies. Looking ahead, the growth outlook appears favorable, and the expected initiation of new resource projects could materially improve growth prospects and help address PNG's significant development needs. Nevertheless, the economy remains highly vulnerable to shocks, and downside risks—mainly from weaker external environment, lower commodity prices, political and social instability, and natural disasters—are significant. The highly uncertain external environment, combined with longstanding vulnerabilities, reinforce the need for preparing contingency plans and building buffers.

57. While reform implementation has faced some delays, program performance remains on track. Since the beginning of the ECF/EFF arrangement, all but one QPC have been met, and most SBs have been fully implemented. Climate reforms are also underway, with one RM fully implemented. Despite delays in the implementation of some reforms, the authorities have consistently remained committed to their homegrown reform agenda and proactively requested CD from the IMF and other development partners to overcome capacity constraints and support effective implementation.

58. Sustained fiscal consolidation, accompanied by a prudent borrowing strategy, is needed to reduce public debt vulnerabilities. Fiscal deficit has been successfully reduced in recent years, with the 2025 deficit projected to stand at half of its pre-program level. Nevertheless, public debt—while on a sustainable path—is elevated, and the risk of debt distress remains high. Continued efforts are needed to further reduce the fiscal deficit and enhance the rule-based fiscal framework to bring public debt to safer levels. Accelerating the implementation of the MTRS would help increase revenue mobilization, including by broadening the tax base and ensuring fair contributions by the resource sector. On the expenditure side, steps to reprioritize funds towards development needs and improve spending efficiency should continue, in tandem with measures to enhance the expenditure controls and reform public investment management. Improving debt management capabilities along with efforts to modernize PNG's cash management practices would help optimizing the government's financing strategy and engaging in prudent borrowing.

59. The crawl-like arrangement remains appropriate to gradually tackle the overvaluation of the Kina. The Kina's flexibility under the current exchange rate regime, combined with increased FX interventions and easing of some exchange restrictions, have alleviated FX shortages and reduced imports compression. Further easing of FX restrictions should proceed in a gradual manner with the clearance of essential orders remaining the priority until the market can clear them on its own. A transition towards a trade-weighted basket of currencies as an anchor for the crawl-like arrangement could prove more effective in tackling the overvaluation and should be explored with IMF's technical assistance.

60. A tighter monetary policy stance is necessary to ensure consistency with the exchange rate arrangement. As the KFR remains well below the implied interest parity, further rate hikes would help reduce the FX pressures and support the exchange rate regime. Concurrently, the CRR should be recalibrated to decrease the amount of liquidity captive and unremunerated, enhance liquidity management practices, particularly among domestic banks, and allow for a greater reliance on interest rates to achieve a tighter monetary policy stance. Enhancing the BPNG's liquidity management toolkit and developing the interbank market, including by finalizing the Master Repo Agreement and aligning it with international best practice, would help address the uneven liquidity distribution among banks and improve monetary policy transmission. Increasing the effectiveness and impact of the systemic risk analysis and operationalizing the BPNG's lender of last resort function would support financial stability.

61. Promoting good governance and enhancing the effectiveness of the AML/CFT framework will make the business environment more conducive to activity and investment. Staff supports the authorities' deep commitment to implementing the priority recommendations of APG's mutual evaluation report, with the aim of fostering a more effective AML/CFT framework by the end of the observation period and beyond. Allocating sufficient budget resources to the ICAC remains critical to ensure it can fully carry out its mandate. Increasing the transparency of the financial dealings of state holding companies in the resource sector would enhance public accountability and ensure they duly contribute to the budget.

62. Steps to enhance competitiveness and attract greater foreign investment are essential to fostering resilient economic growth and addressing development gaps. The authorities' plans to develop a foreign exchange repair strategy and implement reforms to remove barriers to trade, enhance export capacity and returns, and diversify the economy, are welcome steps to increase PNG's resilience to shocks. Improving the business environment by tackling impediments related to law and order, infrastructure connectivity, governance, and human capital is also critical. Efforts to reinforce financial literacy, particularly in rural areas, and address gender gaps should also be promoted to attain a more inclusive growth.

63. Early progress on reform implementation under the RSF arrangement is encouraging. Addressing longer-term challenges from climate change would require continued efforts, including in strengthening disaster risk management, integrating climate considerations in infrastructure governance, creating an enabling environment for climate finance, and setting up fiscal incentives for forest protection and fuel efficiency. Building on the recent climate finance roundtable, the authorities should continue to explore concrete and innovative initiatives to effectively scale up resources for climate action.

64. Sustained efforts are needed to improve the quality of economic and financial statistics, which are critical for informed decision-making. Devoting appropriate resources, with the CD support from the Fund and other development partners, and strengthening interagency coordination will be critical to tackle significant data gaps, particularly in the areas of national accounts and external sector statistics.

65. Based on PNG's overall program performance and continued commitment to reforms, staff supports the completion of the fourth reviews under the EFF and ECF arrangements and first review under the RSF arrangement and requests for waiver of nonobservance and for modification of QPCs. Upon completion of the first review of the RSF arrangement, an amount of SDR 19.74 million will be made available for disbursement. 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.

66. Staff recommends that the next Article IV consultation for Papua New Guinea be held on a 24-month cycle in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.

Box 1. Papua New Guinea: Enhancing the Fiscal Rules-Based Framework

PNG's public debt has increased significantly in recent years, leading to a high risk of debt distress and exposing significant gaps in the existing fiscal framework. Owing to a sustained drop in revenue in 2012-2019, reflecting in part lower commodity prices, fiscal deficits in PNG widened and stood at an average of 4.2 percent of GDP —among the top quantile of all countries. Consequently, public debt more than doubled and reached 40.6 percent in 2019, despite strong GDP growth. The Covid-19 pandemic resulted in a further increase in public debt to around 55 percent of GDP as growth plummeted, commodity prices fell, and pandemic-support measures were deployed.

The current fiscal framework lacks clarity on the debt anchor and is subject to frequent revisions, undermining the credibility of fiscal policies. The public debt ceiling in the Fiscal Responsibility Act (FRA) has been modified multiple times in recent years, with recent amendments (2023) suggest that public debt should not exceed 40 percent of GDP over the medium term.[1] At the same time, the government's 13-year plan—introduced in 2022—stipulates a much more aggressive fiscal consolidation as it envisages bringing public debt to around 26 percent of GDP in 2030, and to zero by 2033—involving significant consolidation which may constrain the government's ability to address PNG's significant development needs. Such ambiguity regarding the debt anchor could undermine the credibility of the fiscal framework and complicate fiscal policies.

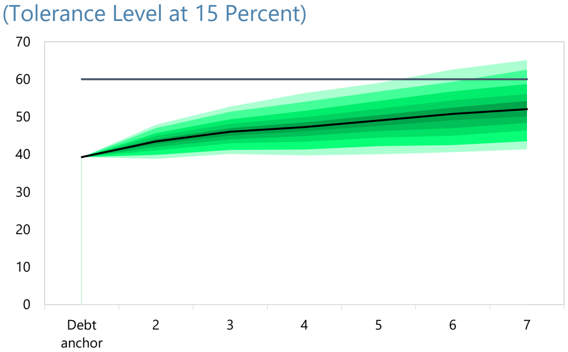
Adopting a clear debt anchor and an operational rule to guide fiscal policies can enhance the existing framework.

- ***Primary balance rule.*** A primary balance rule can be effective in preserving debt sustainability and is easy to monitor and control. The proposed rule includes a tightening period—when the primary balance is running above the debt-stabilizing balance—to facilitate convergence of public debt to its anchor. The tightening phase will be followed by a gradual fiscal relaxation until a debt-stabilizing primary deficit of 0.7 percent of GDP is reached, keeping the public debt around its anchor.

Advancing Public Financial Management (PFM) reforms is critical to support the fiscal framework and enhance its credibility. This includes investing in strengthening institutional capacity and improving the reliability of fiscal data, which are essential for effectively implementing fiscal rules and navigating the challenges posed by resource revenue fluctuations, ultimately supporting fiscal sustainability and more inclusive growth.

Debt Anchor

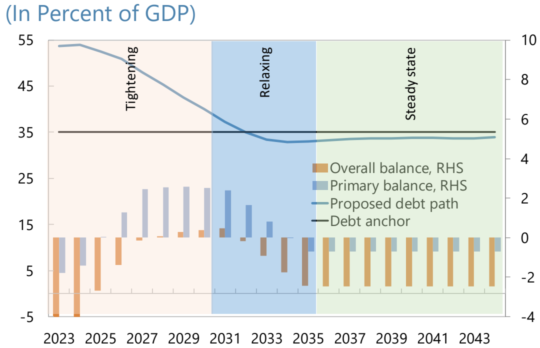
(Tolerance Level at 15 Percent)



Sources: PNG Department of Treasury; and IMF staff calculations.

Debt Path with the Proposed Fiscal Rule

(In Percent of GDP)



Sources: PNG Department of Treasury; and IMF Staff Calculations.

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[1] A maximum public debt limit of 60 percent of GDP is broadly consistent with a "growth-friendly" debt level (Reinhart and Rogoff, 2010), and comparable to that in many countries. It is also close to the level calculated under the "prudential approach," which derives the maximum debt level that can be stabilized with the most feasibly aggressive consolidation efforts.

Box 2. Papua New Guinea: Bridging The Gender Gaps in PNG

Overall, gender inequality in PNG is high relative to peers, particularly in terms of labor, access to health and education and legal rights. According to the UNDP's Gender Inequality Index (GII), which captures inequality of outcomes, opportunity and representation, PNG ranked 151th out of 166 countries in 2022, displaying a high level of inequality relative to regional and income-level peers.

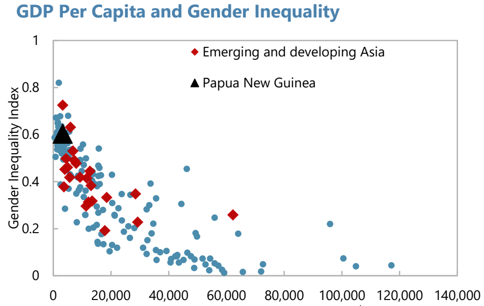
- ***Labor market.*** While male and female labor force participation are at similar levels in PNG, gender gaps manifest in (i) the types of jobs—women are far less likely to be employed as wage and salaried workers, or to be employed in agriculture; (ii) earnings levels—PNG's Business Coalition for Women's recent labor market survey estimates that there was a 14 percent gender earnings gap, driven especially by self-employed workers; and (iii) the seniority level—in 2022, the female share of employment in senior and middle management stood at 18 percent.

- ***Access to health and education.*** While maternal mortality has been trending down in the past two decades, it remains much higher than in peers, partly related to higher gender-based violence, higher rates of child marriage and higher adolescent fertility rates, increasing risks of delivery complications and pregnancy-related mortality. Primary school enrollment is broadly gender-equal, but there are eight girls for ten boys enrolled in secondary school, a much wider gap than peers.

- ***Legal rights.*** The legal gender gap in PNG has remained broadly unchanged over the past three decades, while peers have made progress towards higher equality. The World Bank's Women Business in the Law Report (2024) highlights several legal gender gaps, particularly with respect to women's safety and equality in parenthood, childcare, pay, and entrepreneurship.

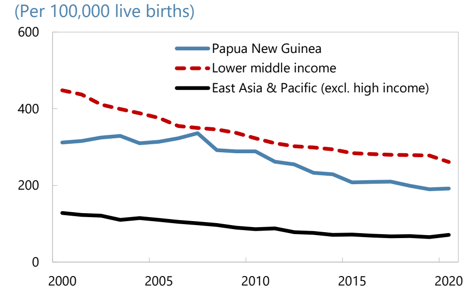
- ***A number of policies could help bridge these gender gaps, contributing to enhancing inclusive growth.*** The entry of women into the formal labor market should be encouraged, closely connected to reforms enabling access to family and household care. Regulations aimed at evening the playing field in terms of earnings and access to senior position should be adopted and enforced. Awareness campaigns on maternal health and on the benefits of girls' education should be developed, particularly in the more rural and remote areas. Bridging legal gaps in terms of childcare, entrepreneurship and women's safety is also important to provide women with an economic and social level-playing field.

GDP Per Capita and Gender Inequality



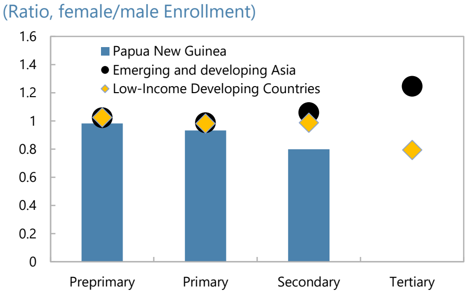
Sources: UNDP, World Bank World Development Indicators, IMF staff calculations.

Maternal Mortality Ratio
(Per 100,000 live births)



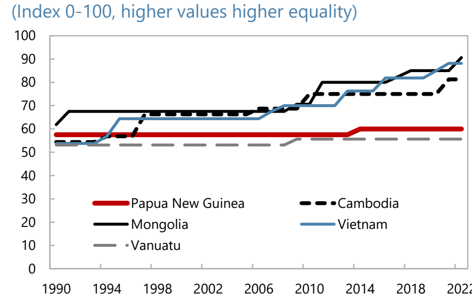
Source: World Bank Gender Statistics.

School Enrollment Ratio, Latest Available
(Ratio, female/male Enrollment)



Source: World Bank World Development Indicators

Legal Rights Index, 1990-2022
(Index 0-100, higher values higher equality)



Source: World Bank Women, Business and the Law

Box 3. Papua New Guinea: The Blue Economy in Papua New Guinea

Pacific Island economies (PIEs) are particularly dependent on the Blue Economy for their socio-economic development. PIEs are characterized by the physical prevalence of the sea relative to land areas and the economic significance of ocean-related activities, or "Blue Economy", such as tourism, fishing, sea transportation or shipping. While these sectors can provide significant fiscal revenue for the government and attract foreign exchange inflows, marine ecosystems are subject to acute threats from human degradation and climate change, putting the long-term sustainability and resilience of ocean-centric economic strategies at risk.

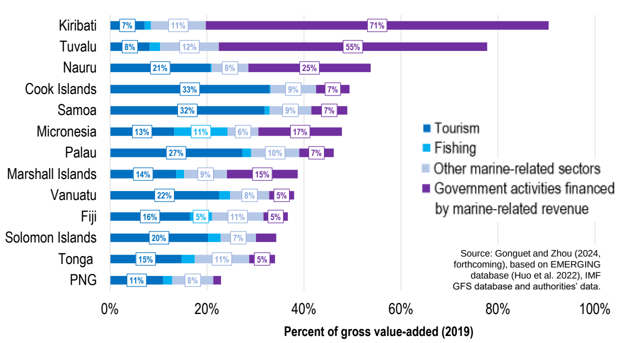
According to new IMF staff estimates, Blue Economy sectors accounted for about one fifth of PNG's value added in 2019 (left-hand side chart). In 2019, the Blue Economy in PNG was dominated by tourism activities (about 11 percent of value added, broadly defined to include travel, local transport, accommodation, and restaurant services), while fishing represented 1.3 percent of value added. While, in percent of value added, this is much less than other PIEs, in part due by the significance of PNG's mining and petroleum sectors, this represents more activity in nominal terms than all other PICs combined, given the much larger size of PNG's economy.

An ocean-centric strategy for PNG's economic development could bring substantial benefits if the associated risks are well-managed. Investing in Blue Economy sectors would support a more inclusive growth and allow to tap into much larger foreign demand, be it for beach tourism or fish resources. Specifically:

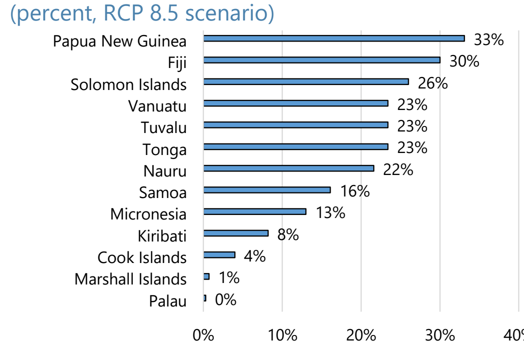
- ***Tourism.*** PNG could derive additional value-added from ocean-based tourism, where the potential is still largely untapped. Tackling FX shortages, as well as other impediments to business in terms of security and infrastructure connectivity is critical to tap this potential (see Annex V). Special economic zones could be good testing grounds for the development of new tourism activities, although tax incentives would need to be well calibrated and the associated fiscal costs carefully assessed. Adaptation investment is critical to mitigating the risk of tourism infrastructure damage due to climate related disasters.

- ***Fishing.*** PNG territorial waters are teeming with highly prized fish resources, which attract foreign demand but are also core to the livelihoods of coastal communities. Fish populations are under threat from marine pollution, illegal activities, which can lead to overfishing, and climate change, which could lead to a reduction of up to a third of tuna catches in PNG territorial waters by 2050 under a high-emissions scenario (right-hand side chart). Stronger regulation and coral reef preservation efforts are key to ensuring the sustainability of fish resources going forward.

Estimates of the size of the Blue Economy in Pacific Island Economies
(2019, percent of gross value added)



Expected Decline in Commercial Tuna Catches by 2050 Due to Climate Change
(percent, RCP 8.5 scenario)



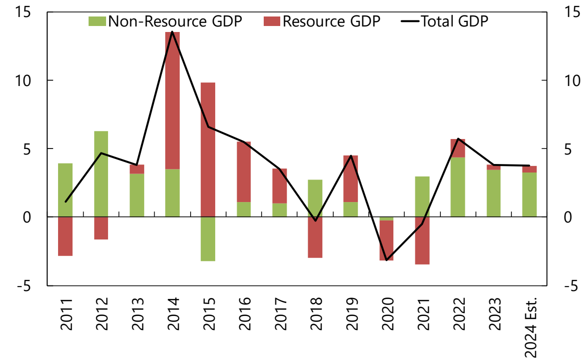
Source: Bell et al. (2021).

Source: Gonguet F. and J. Zhou (2024). "Size and resilience of the Blue Economy in Pacific Island economies". IMF Working Paper WP/24/255. International Monetary Fund. Washington, DC.

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

Real growth is estimated to have remained resilient in 2024 due to strong resource sector growth.

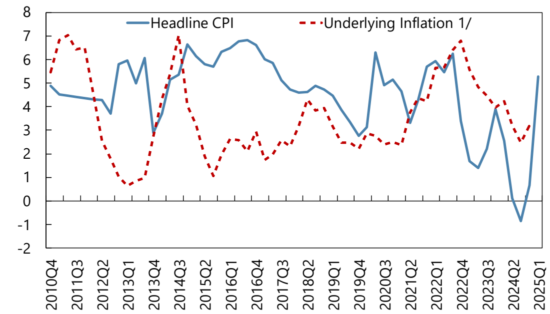
Real GDP Growth
(Contributions to percent change)



Source: IMF Staff Estimates

...while underlying inflation weakened further.

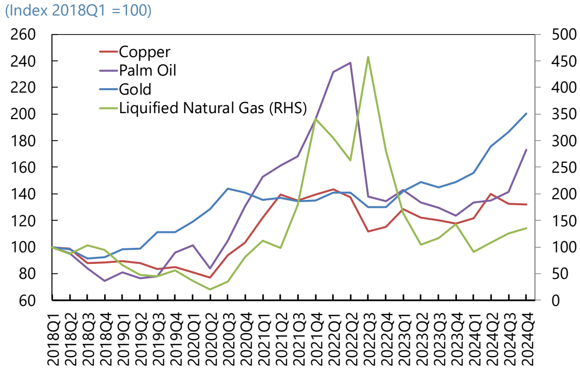
CPI Inflation
(In year-on-year percent change)



Sources: BPNG and IMF staff estimates
1/ Trimmed mean estimates published by BPNG.

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

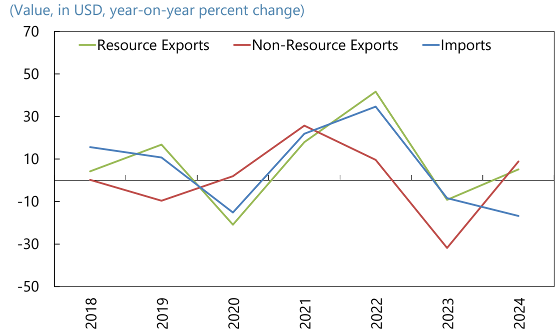
Commodity Prices
(Index 2018Q1 =100)



Source: IMF Primary Commodity Price System

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

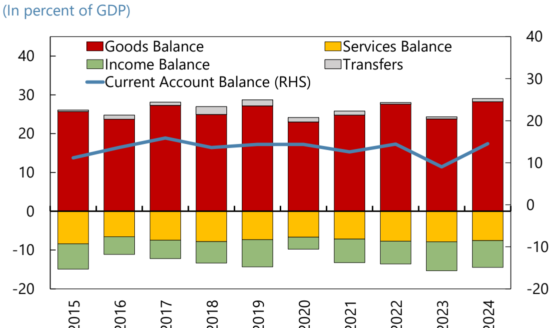
Exports and Imports
(Value, in USD, year-on-year percent change)



Source: IMF Staff Estimates

Current account surpluses are driven by goods balance...

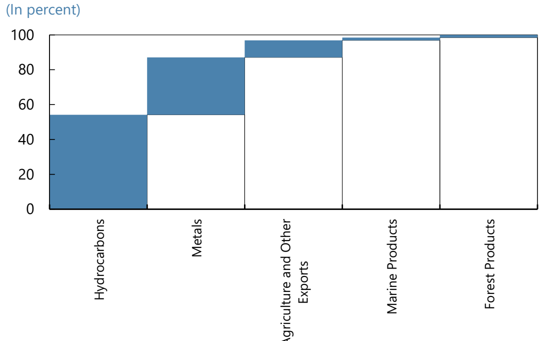
Current Account
(In percent of GDP)



Source: BPNG and IMF Staff Calculations.

... mainly explained by exports of resource goods.

Export Product Share, 2023
(In percent)

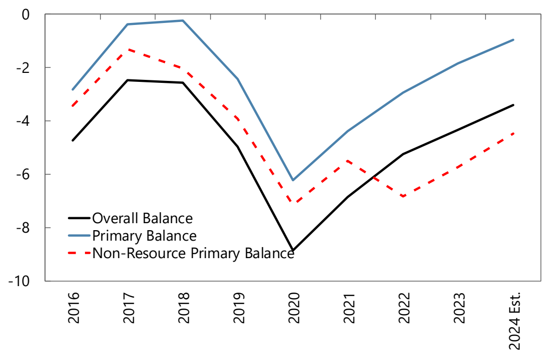


Source: BPNG

Figure 2. Papua New Guinea: Fiscal Developments

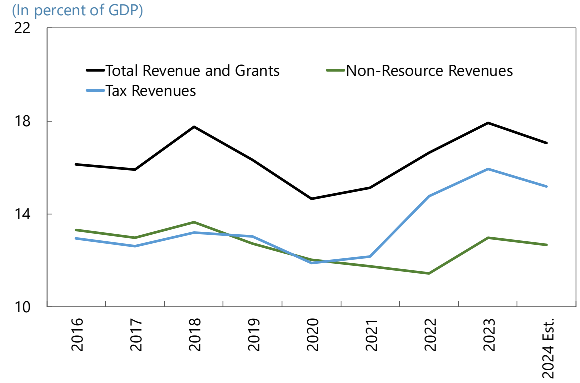
The fiscal deficit has been more than halved since 2020…

Fiscal Balance
(In percent of GDP)



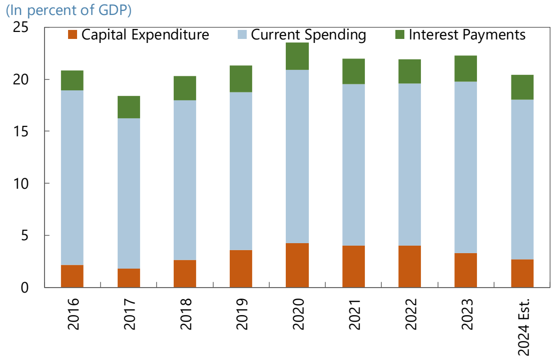
…thanks in part to a sharp increase in tax revenues relative to pre-pandemic levels.

Central Government Revenue
(In percent of GDP)



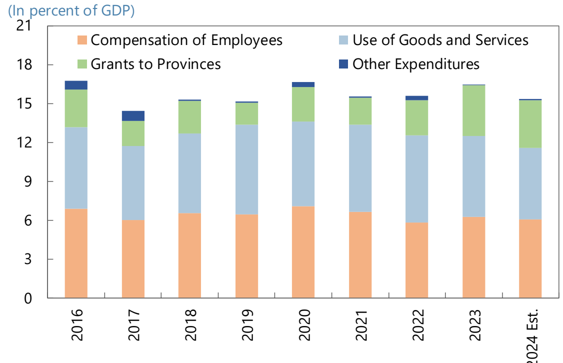
While accounting for the bulk of government spending, current spending declined in 2024…

Central Government Expenditure
(In percent of GDP)



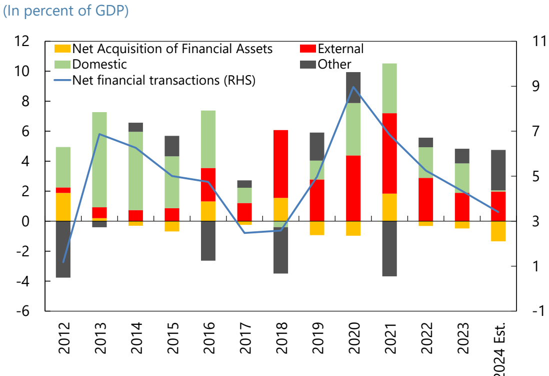
…driven mainly by a significant cut in goods and services.

Recurrent Central Government Expenditure
(In percent of GDP)



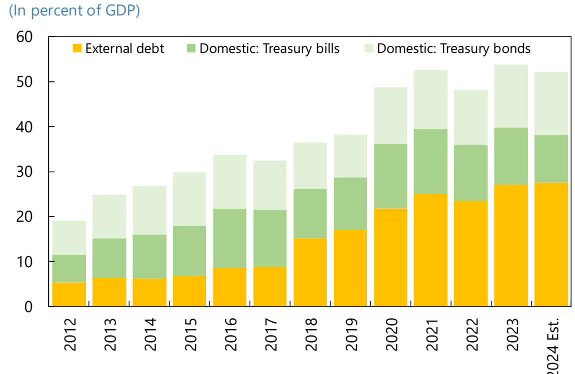
External financing sources remain significant.

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)

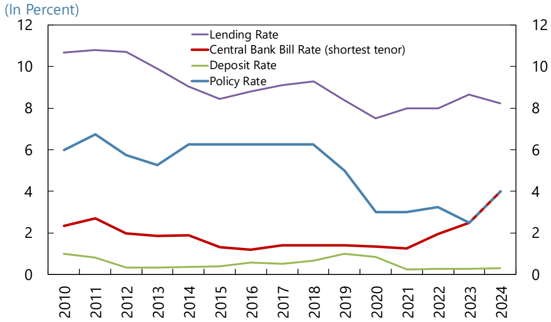


Sources: Country authorities; and IMF staff estimates and projections.

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.

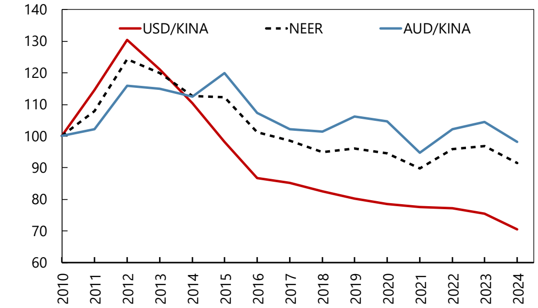
Interest Rates
(In Percent)



Sources: IFS; and BPNG.
Note: Updated as of Dec 2024. Shortest Central Bank Bill tenor was 28 days up to 2022, and 7 days from 2023.

The kina gradually depreciated against the USD in 2023 and 2024.

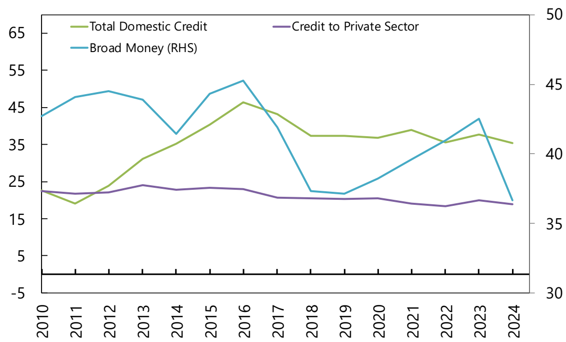
Exchange Rate
(Index; 2010=100)



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

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

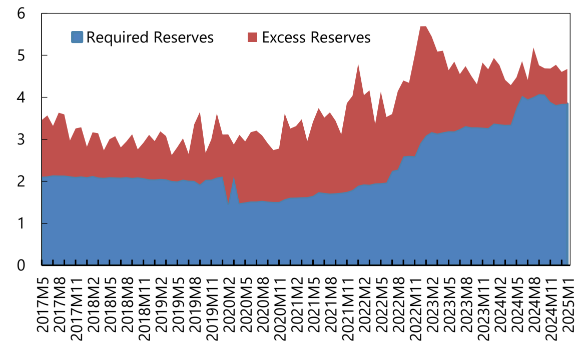
Money and Credit
(In Percent of Non-Resource GDP)



Sources: BPNG and IMF staff estimates.

Recent actions by the Bank of PNG have contributed to reducing excess liquidity in the banking system.

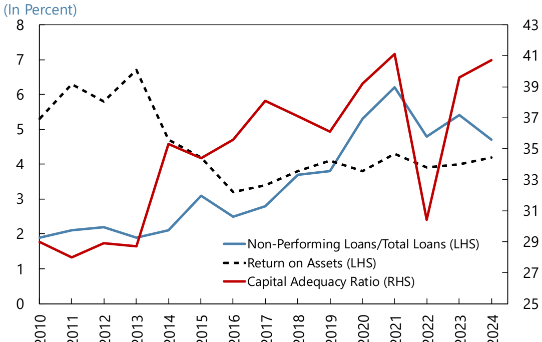
Liquidity
(Billions of Kina)



Source: BPNG.

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

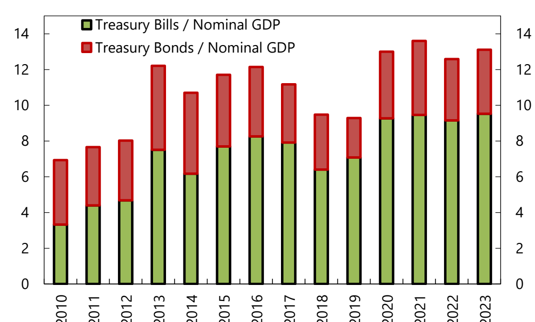
Financial Stability
(In Percent)



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, 2021-2030

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

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	Actual	Actual	Actual	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percentage change)									
Real sector										
Real GDP growth	-0.5	5.7	3.8	3.8	4.7	3.5	3.1	3.1	3.1	3.1
Resource 2/	-11.6	5.1	1.3	1.7	4.7	1.4	0.1	0.2	0.2	0.2
Non-resource	4.2	5.9	4.7	4.5	4.8	4.2	4.1	4.1	4.0	4.0
Mining and quarrying (percent of GDP)	8.2	8.2	8.5	9.9	12.2	13.4	12.8	12.7	12.5	12.3
Oil and gas extraction (percent of GDP)	17.1	23.7	18.9	18.3	16.4	16.2	15.5	14.7	13.9	13.1
CPI (annual average)	4.5	5.3	2.3	0.6	4.8	4.6	4.6	4.6	4.5	4.5
CPI (end-period)	5.7	3.4	3.9	0.7	4.0	4.3	4.3	4.3	4.5	4.5
	(In percent of GDP)									
Central government operations										
Revenue and grants	15.1	16.6	17.9	17.0	17.9	18.6	18.8	18.9	19.1	19.3
Of which: Resource revenue	1.1	3.9	3.9	3.5	4.2	4.5	4.6	4.5	4.6	4.7
Expenditure and net lending	22.0	21.9	22.3	20.4	20.5	19.7	18.8	18.9	18.9	19.0
Net lending(+)/borrowing(-)	-6.8	-5.3	-4.3	-3.4	-2.6	-1.2	0.0	0.0	0.2	0.3
Non-resource net lending(+)/borrowing(-)	-8.0	-9.1	-8.2	-6.9	-6.8	-5.7	-4.6	-4.5	-4.4	-4.3
	(Percentage change)									
Money and credit										
Domestic credit	15.9	1.5	12.1	1.6	3.6	2.3	2.2	6.0	6.2	9.7
Credit to the private sector	2.5	6.9	14.9	3.2	13.4	10.8	10.6	8.4	10.7	9.5
Broad money	13.4	14.7	9.9	-6.4	-8.5	7.7	5.9	1.3	11.5	24.2
	(In billions of U.S. dollars)									
Balance of payments										
Exports, f.o.b.	10.8	14.6	12.7	13.5	14.9	15.1	15.8	16.7	17.6	18.5
Imports, c.i.f.	-4.4	-5.9	-5.4	-4.5	-6.1	-6.8	-7.1	-7.4	-7.8	-8.1
Current account (including grants)	3.3	4.6	2.8	4.9	3.5	4.2	3.9	4.2	3.9	4.4
(In percent of GDP)	12.6	14.4	9.0	15.6	10.8	12.7	11.3	11.8	10.7	11.4
Gross official international reserves	3.2	4.0	3.9	3.7	3.0	3.5	3.7	3.2	3.3	4.3
(In months of goods and services imports)	4.5	5.9	6.4	5.0	3.7	4.3	4.3	3.6	3.7	4.6
	(In percent of GDP)									
Government debt										
Government gross debt	52.6	48.2	53.9	52.1	50.5	48.9	46.3	44.1	41.9	39.4
External debt-to-GDP ratio (in percent) 3/	25.0	23.5	27.0	27.4	29.7	30.5	30.3	28.8	27.4	25.4
External debt-service ratio (percent of exports)	4.3	2.2	2.7	3.4	4.5	5.4	5.6	8.9	3.7	3.3
Memo Items										
US$/kina (end-period)	0.2850	0.2840	0.2683	0.2500	…	…	…	…	…	…
NEER (2005=100, fourth quarter)	91.2	100.3	95.3	89.3	…	…	…	…	…	…
REER (2005=100, fourth quarter)	125.3	134.6	129.0	119.5	…	…	…	…	…	…
Terms of trade (2010=100, end-period)	48.3	70.4	64.0	62.7	67.7	66.8	67.0	68.1	69.3	70.3
Nominal GDP (in billions of kina)	91.6	111.4	110.6	121.5	134.9	144.2	153.4	162.6	172.5	183.3
Non-resource nominal GDP (in billions of kina)	68.4	75.9	80.3	87.3	96.3	101.6	109.9	118.1	127.0	136.7

Sources: Papua New Guinea authorities; 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 guarantees to other entities.

Table 2a. Papua New Guinea: Summary Operations of the Central Government, 2021-2030
(In millions of Kina)

	2021	2022	2023	2024		2025		2026	2027	2028	2029	2030
				Prog. Third Rev.	Latest	Prog. Third Rev.	Latest	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue and Grants	**13,860**	**18,538**	**19,810**	**22,855**	**20,707**	**25,955**	**24,192**	**26,802**	**28,905**	**30,757**	**33,028**	**35,443**
Revenue	11,772	17,066	18,651	20,650	19,646	23,700	22,692	25,174	27,206	28,992	31,202	33,551
Taxes	11,129	16,454	17,627	19,175	18,447	21,211	20,335	22,449	24,188	25,771	27,669	29,695
Taxes on income, profits, and capital gains	6,356	11,253	11,730	12,498	12,365	13,561	13,708	15,055	16,105	17,080	18,217	19,435
of which: Personal income tax	3,468	3,652	4,150	4,399	4,397	4,729	4,729	5,155	5,584	6,019	6,485	6,990
of which: Company tax	1,690	2,757	3,032	3,647	3,419	4,002	3,959	4,232	4,502	4,772	5,062	5,379
Taxes on payroll and workforce	1	1	2	1	0	1	1	1	1	1	1	1
Taxes on goods and services	3,994	4,294	5,227	5,860	5,320	6,709	5,687	6,332	6,958	7,501	8,188	8,923
of which: GST	2,457	2,475	3,599	3,800	3,078	4,387	3,320	3,749	4,188	4,539	5,015	5,529
Taxes on international trade and transactions	779	906	668	816	762	939	939	1,061	1,124	1,190	1,262	1,336
Other Revenue	643	613	1,024	1,475	1,199	2,489	2,357	2,725	3,018	3,221	3,533	3,856
Resource revenue 1/	1,016	4,336	4,309	4,050	4,267	4,996	5,608	6,497	7,028	7,386	7,955	8,541
Mining and Petroleum Taxes	635	4,036	3,907	3,650	3,707	3,946	4,137	4,722	5,017	5,229	5,549	5,879
Mining and Petroleum and Gas Dividends	381	300	403	400	560	1,050	1,471	1,776	2,011	2,157	2,406	2,662
Non-resource revenue	10,757	12,730	14,342	16,600	15,379	18,705	17,085	18,677	20,178	21,607	23,247	26,903
Non-resource tax revenue	10,494	12,418	13,720	15,525	14,740	17,266	16,198	17,728	19,171	20,542	22,120	25,709
Grants	2,088	1,472	1,159	2,205	1,061	2,255	1,500	1,627	1,699	1,765	1,827	1,892
Expenditure	**20,131**	**24,390**	**24,615**	**27,665**	**24,845**	**29,472**	**27,709**	**28,469**	**28,864**	**30,766**	**32,636**	**34,836**
Expense	16,480	19,940	20,966	22,711	21,591	24,406	22,809	23,525	23,676	24,798	26,007	27,293
Compensation of employees	6,094	6,490	6,940	7,397	7,361	7,762	7,718	7,887	8,019	8,500	9,018	9,582
of which: Clearance of retirement arrears			196	200	200	100	100					
Use of goods and services	6,161	7,467	6,906	7,153	6,711	7,471	6,845	6,995	7,113	7,539	7,998	8,498
Interest	2,249	2,573	2,761	3,019	2,953	3,541	3,461	3,741	3,548	3,463	3,372	3,243
Grants 2/	1,915	3,018	4,290	5,034	4,445	5,512	4,535	4,634	4,712	4,995	5,299	5,630
Social benefits 3/	0	0	0	100	0	111	105	112	119	126	134	142
Other expenses	61	393	69	9	121	9	145	155	165	175	186	197
Net acquisition of non-financial assets	3,650	4,450	3,649	4,955	3,253	5,065	4,900	4,945	5,187	5,967	6,629	7,543
Gross operating balance	-2,620	-1,402	-1,156	145	-885	1,549	1,384	3,277	5,229	5,959	7,021	8,151
Net lending (+)/borrowing (-)	**-6,270**	**-5,852**	**-4,805**	**-4,810**	**-4,138**	**-3,516**	**-3,516**	**-1,668**	**41**	**-8**	**392**	**607**
Primary balance	-4,021	-3,279	-2,043	-1,791	-1,185	25	-56	2,074	3,589	3,454	3,765	3,851
Non-resource net lending (+)/borrowing (-)	-7,286	-10,188	-9,114	-8,860	-8,405	-8,512	-9,124	-8,165	-6,987	-7,394	-7,563	-7,933
Non-resource primary balance	-5,037	-7,615	-6,353	-5,841	-5,453	-4,971	-5,663	-4,424	-3,439	-3,932	-4,190	-4,690
Net financial transactions 4/	**6,270**	**5,852**	**4,805**	**4,810**	**4,138**	**3,516**	**3,516**	**1,668**	**-41**	**8**	**-392**	**-607**
Net acquisition of financial assets	1,685	-356	-541	0	-1,638	0	0	0	0	0	0	0
Net incurrence of financial liabilities	7,956	5,496	4,264	4,810	2,500	3,516	3,516	1,668	-41	8	-392	-607
Net domestic	3,042	2,277	2,176	-578	95	-30	-954	-1,111	-1,521	1,989	516	929
Treasury bills	1,395	493	350	-803	-1,383	-1,334	-4,628	-2,599	-2,613	-594	-987	561
Treasury bonds	1,601	1,750	1,945	224	1,478	1,304	3,673	1,488	1,092	2,583	1,502	368
Net external	4,913	3,220	2,088	5,388	2,405	3,546	4,471	2,779	1,479	-1,980	-908	-1,536
Debt securities	0	0	0	0	103	0	0	0	0	-1,134	0	0
IMF SDR allocation	1,244	0										
Loans	4,913	3,220	2,088	5,388	2,302	3,546	4,471	2,779	1,479	-846	-908	-1,536
of which: net Fund financing	0	0	632	971	971	1,023	1,023	394	-311	-320	-330	-169
Rapid Credit Facility	*0*	*0*	*0*	*0*	*0*	*-303*	*-303*	*-303*	*-311*	*-320*	*-330*	*-169*
ECF/EFF program			*632*	*971*	*971*	*1,326*	*1,326*	*697*				
Extended Fund Facility			*421*	*647*	*647*	*884*	*884*	*465*				
Extended Credit Facility			*211*	*324*	*324*	*442*	*442*	*232*				
Resilience and Sustainability Facility						*598*	*598*	*922*				
Gross government debt	**48,173**	**53,680**	**59,569**	**65,898**	**63,298**	**70,784**	**68,118**	**70,446**	**70,998**	**71,726**	**72,255**	**72,278**
Domestic debt	25,258	27,534	29,710	28,486	29,942	28,441	28,033	26,533	24,475	24,833	24,956	25,646
Treasury bills	13,297	13,789	14,139	13,707	12,756	11,422	10,215	7,616	5,003	4,409	3,422	3,983
Treasury bonds	11,961	13,745	15,571	14,779	17,186	17,019	17,818	18,917	19,472	20,424	21,533	21,662
External debt	22,916	26,146	29,859	37,412	33,356	42,343	40,084	43,913	46,523	46,893	47,299	46,633
of which Debt securities	1,750	1,761	1,761	1,761	1,864	1,879	1,879	1,976	2,027	947	974	993
Memorandum items:												
Contingent liabilities 5/	2,431	2,431	2,381	2,381	2,381	2,331	2,331	2,281	2,231	2,181	2,131	2,081
Contingent liabilities, percentage of GDP	2.7	2.2	2.2	2.0	1.8	1.7	1.6	1.6	1.5	1.3	1.2	1.1
Nonresource GDP at current prices	75,871	75,871	80,312.8	88,311.4	87,274.3	96,915.9	96,313.8	101,551	109,892	118,115	126,997	136,716
GDP at current prices	91,626	111,395	110,619	122,260	121,536	134,697	134,905	144,200	153,400	162,600	172,500	183,281

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

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

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

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

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

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

Table 2b. Papua New Guinea: Summary Operations of the Central Government, 2020-2030
(In percent of GDP)

	2020	2021	2022	2023	2024		2025		2026	2027	2028	2029	2030
					Prog. Third Rev.	Latest	Prog. Third Rev.	Latest	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue and Grants	**14.7**	**15.1**	**16.6**	**17.9**	**18.8**	**17.0**	**19.3**	**17.9**	**18.6**	**18.8**	**18.9**	**19.1**	**19.3**
Revenue	12.9	12.8	15.3	16.9	17.0	16.2	17.6	16.8	17.5	17.7	17.8	18.1	18.3
Taxes	11.9	12.1	14.8	15.9	15.8	15.2	15.7	15.1	15.6	15.8	15.8	16.0	16.2
Taxes on income, profits, and capital gains	6.9	6.9	10.1	10.6	10.3	10.2	10.1	10.2	10.4	10.5	10.5	10.6	10.6
of which: Personal income tax	4.3	3.8	3.3	3.8	3.6	3.6	3.5	3.5	3.6	3.6	3.7	3.8	3.8
of which: Company tax	1.9	1.8	2.5	2.7	3.0	2.8	3.0	2.9	2.9	2.9	2.9	2.9	2.9
Taxes on payroll and workforce	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on goods and services	4.1	4.4	3.9	4.7	4.8	4.4	5.0	4.2	4.4	4.5	4.6	4.7	4.9
of which: GST	2.5	2.7	2.2	3.3	3.1	2.5	3.3	2.5	2.6	2.7	2.8	2.9	3.0
Taxes on international trade and transactions	0.9	0.8	0.8	0.6	0.7	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	1.0	1.8	1.7	1.9	2.0	2.0	2.0	2.1
Resource revenue 1/	0.9	1.1	3.9	3.9	3.3	3.5	3.7	4.2	4.5	4.6	4.5	4.6	4.7
Mining and Petroleum Taxes	0.2	0.7	3.6	3.5	3.0	3.1	2.9	3.1	3.3	3.3	3.2	3.2	3.2
Mining and Petroleum and Gas Dividends	0.7	0.4	0.3	0.4	0.3	0.5	0.8	1.1	1.2	1.3	1.3	1.4	1.5
Non-resource revenue	12.0	11.7	11.4	13.0	13.7	12.7	13.9	12.7	13.0	13.2	13.3	13.5	14.7
Non-resource tax revenue	11.7	11.5	11.1	12.4	12.8	12.1	12.8	12.0	12.3	12.5	12.6	12.8	14.0
(in percent of non-resource GDP)	*15.4*	*13.8*	*16.4*	*17.1*	*17.8*	*16.9*	*17.9*	*16.8*	*17.5*	*17.4*	*17.4*	*17.4*	*18.8*
Grants	1.7	2.3	1.3	1.0	1.8	0.9	1.7	1.1	1.1	1.1	1.1	1.1	1.0
Expenditure	**23.5**	**22.0**	**21.9**	**22.3**	**22.8**	**20.4**	**21.9**	**20.5**	**19.7**	**18.8**	**18.9**	**18.9**	**19.0**
Expense	19.3	18.0	17.9	19.0	18.7	17.8	18.1	16.9	16.3	15.4	15.3	15.1	14.9
Compensation of employees	7.1	6.7	5.8	6.3	6.1	6.1	5.8	5.7	5.5	5.2	5.2	5.2	5.2
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	5.9	5.5	5.5	5.1	4.9	4.6	4.6	4.6	4.6
Interest	2.6	2.5	2.3	2.5	2.5	2.4	2.6	2.6	2.6	2.3	2.1	2.0	1.8
Grants 2/	2.7	2.1	2.7	3.9	4.1	3.7	4.1	3.4	3.2	3.1	3.1	3.1	3.1
Social benefits 3/	0.3	0.0	0.0	0.0	0.1	0.0	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	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Net acquisition of non-financial assets	4.3	4.0	4.0	3.3	4.1	2.7	3.8	3.6	3.4	3.4	3.7	3.8	4.1
Gross operating balance	-4.6	-2.9	-1.3	-1.0	0.1	-0.7	1.2	1.0	2.3	3.4	3.7	4.1	4.4
Net lending (+)/borrowing (-)	**-8.9**	**-6.8**	**-5.3**	**-4.3**	**-4.0**	**-3.4**	**-2.6**	**-2.6**	**-1.2**	**0.0**	**0.0**	**0.2**	**0.3**
Primary balance	-6.2	-4.4	-2.9	-1.8	-1.5	-1.0	0.0	0.0	1.4	2.3	2.1	2.2	2.1
Non-resource net lending (+)/borrowing (-)	-9.8	-8.0	-9.1	-8.2	-7.3	-6.9	-6.3	-6.8	-5.7	-4.6	-4.5	-4.4	-4.3
Non-resource primary balance	-7.1	-5.5	-6.8	-5.7	-4.8	-4.5	-3.7	-4.2	-3.1	-2.2	-2.4	-2.4	-2.6
Net financial transactions 4/	**9.0**	**6.8**	**5.3**	**4.3**	**4.0**	**3.4**	**2.6**	**2.6**	**1.2**	**0.0**	**0.0**	**-0.2**	**-0.3**
Net acquisition of financial assets	-1.0	1.8	-0.3	-0.5	0.0	-1.3	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	4.0	2.1	2.6	2.6	1.2	0.0	0.0	-0.2	-0.3
Domestic	3.5	3.3	2.0	2.0	-0.5	0.1	0.0	-0.7	-0.8	-1.0	1.2	0.3	0.5
Treasury bills	2.1	1.5	0.4	0.3	-0.7	-1.1	-1.0	-3.4	-1.8	-1.7	-0.4	-0.6	0.3
Treasury bonds	1.5	1.7	1.6	1.8	0.2	1.2	1.0	2.7	1.0	0.7	1.6	0.9	0.2
External	4.4	5.4	2.9	1.9	4.4	2.0	2.6	3.3	1.9	1.0	-1.2	-0.5	-0.8
Debt securities	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	-0.7	0.0	0.0
IMF SDR allocation		1.4	0.0										
Loans	4.4	5.4	2.9	1.9	4.4	1.9	2.6	3.3	1.9	1.0	-0.5	-0.5	-0.8
of which net Fund financing	1.5	0.0	0.0	0.6	0.8	0.8	0.8	0.8	0.3	-0.2	-0.2	-0.2	-0.1
Rapid Credit Facility	*1.5*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*-0.2*	*-0.2*	*-0.2*	*-0.2*	*-0.2*	*-0.2*	*-0.1*
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*	*0.7*	*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*	*0.4*	*0.6*				
Gross government debt	**48.7**	**52.6**	**48.2**	**53.9**	**54.2**	**52.1**	**52.6**	**50.5**	**48.9**	**46.3**	**44.1**	**41.9**	**39.4**
Domestic debt	26.9	27.6	24.7	26.9	23.4	24.6	21.1	20.8	18.4	16.0	15.3	14.5	14.0
Treasury bills	14.4	14.5	12.4	12.8	11.3	10.5	8.5	7.6	5.3	3.3	2.7	2.0	2.2
Treasury bonds	12.5	13.1	12.3	14.1	12.2	14.1	12.6	13.2	13.1	12.7	12.6	12.5	11.8
External debt	21.8	25.0	23.5	27.0	30.8	27.4	31.4	29.7	30.5	30.3	28.8	27.4	25.4
of which Debt securities	2.1	1.9	1.6	1.6	1.4	1.5	1.4	1.4	1.4	1.3	0.6	0.6	0.5
Memorandum items:													
Contingent liabilities 5/	2.9	2.7	2.2	2.2	2.0	2.0	1.7	1.7	1.6	1.5	1.3	1.2	1.1
Future unfunded superannuation liabilities	2.9	2.7	2.2	2.2	2.0	2.0	1.7	1.7	1.6	1.5	1.3	1.2	1.1
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	0.0
Nonresource GDP at current prices (millions of kina)	62,474	75,871	75,871	80,313	87,274	87,274	96,314	96,314	101,551	109,892	118,115	126,997	136,716
GDP at current prices (millions of kina)	82,515	91,626	111,395	110,619	121,536	121,536	134,697	134,905	144,200	153,400	162,600	172,500	183,281

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, 2020-2030
(In millions of US dollars)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
					Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	**3,424**	**3,284**	**4,567**	**2,799**	**4,986**	**2,882**	**3,559**	**2,950**	**2,037**	**2,631**	**3,011**
Trade balance	5,489	6,474	8,736	7,415	8,806	8,562	8,274	8,604	9,144	9,757	10,273
Exports (f.o.b.)	9,073	10,842	14,615	12,801	13,372	14,138	14,381	14,995	15,815	16,724	17,558
Resource	7,232	8,529	12,080	10,972	11,268	11,800	11,881	12,335	12,996	13,733	14,434
Nonresource	1,840	2,313	2,535	1,830	2,105	2,338	2,500	2,660	2,819	2,991	3,124
Imports (f.o.b.)	-3,584	-4,368	-5,880	-5,387	-4,567	-5,576	-6,107	-6,391	-6,671	-6,967	-7,285
Resource	-814	-870	-1,378	-992	-675	-1,025	-1,078	-1,129	-1,180	-1,234	-1,292
Nonresource	-2,770	-3,498	-4,501	-4,395	-3,891	-4,551	-5,029	-5,262	-5,491	-5,733	-5,993
Services	-1,592	-1,872	-2,441	-2,424	-2,276	-2,214	-2,214	-2,214	-2,214	-2,214	-2,214
of which, identifiable RM BoP costs	0	0	0	0	0	0	0	0	0	0	0
Income	-744	-1,590	-1,863	-2,288	-1,831	-3,754	-2,789	-3,727	-5,180	-5,199	-5,336
Current Transfers	271	272	137	96	287	287	287	287	287	287	287
Official	331	449	390	298	346	346	346	346	346	346	346
Private	-60	-178	-253	-202	-59	-59	-59	-59	-59	-59	-59
Capital and financial account balance (+ = inflow)	**-1,513**	**-3,213**	**-4,719**	**-2,934**	**-4,901**	**-4,346**	**-3,510**	**-2,675**	**-2,344**	**-2,201**	**-2,520**
Capital account balance	6	6	7	4	4	4	4	4	4	4	4
Financial account balance	1,518	3,219	4,726	2,938	4,905	4,350	3,514	2,680	2,349	2,206	2,524
Direct investment	879	1,646	1,264	284	961	527	537	545	551	554	554
Portfolio investment	73	33	39	29	-8	27	27	27	-223	27	27
Other investment	567	1,540	3,423	2,625	3,952	3,796	2,950	2,107	2,021	1,624	1,943
Loans (Net)	-475	410	-641	-736	-1,166	-1,052	-617	-305	218	228	356
Official 1/	-955	-204	-830	-943	-1,383	-1,084	-645	-335	187	195	322
Private	481	614	189	207	217	37	34	36	37	38	40
Commercial banks	-16	229	814	-279	-473	-887	199	199	-501	299	1,091
Other private capital flows 2/	1,057	901	3,250	3,640	5,591	5,735	3,368	2,214	2,303	1,097	496
Net errors and omissions	-2299	146	988	-367	-780	0	0	0	0	0	0
Overall balance	**-387**	**217**	**836**	**-502**	**-695**	**-1,464**	**49**	**274**	**-308**	**430**	**491**
Financing	**387**	**-217**	**-836**	**502**	**695**	**1,464**	**-49**	**-274**	**308**	**-430**	**-491**
Change in net reserve assets (+=fall in reserves, without RSF)	9	-217	-836	326	446	1,176	-141	-199	401	-299	-379
RSF disbursement (identifiable RM BoP costs)	0	0	0	0	0	0	0	0	0	0	0
Use of IMF credit	378	0	0	176	249	288	91	-75	-93	-131	-112
Purchases	378	0	0	176	249	323	162	0	0	0	0
Repurchases	0	0	0	0	0	-35	-70	-75	-93	-131	-112
RSF disbursement (not linked to RM BoP costs)	0	0	0	0	0	105	158	0	0	0	0
Memorandum items:											
Current account (in percent of GDP)	14.4	12.6	14.4	9.1	15.8	8.8	10.6	8.5	5.7	7.1	7.8
Net international reserves (end-year, millions of U.S. dollars)	2,126	2,343	3,179	2,853	2,407	1,336	1,635	1,833	1,432	1,731	2,110
Net international reserves as per TMU definition (prog. monitoring)	..	..	..	3,316	3,183	1,800					
Gross international reserves with RSF (end-year, millions of U.S. dollars)	2,686	3,240	4,032	3,858	3,666	2,993	3,543	3,669	3,176	3,346	3,614
In months of nonmineral sector imports	6.4	6.0	7.3	7.9	6.9	5.3	6.0	6.0	5.1	5.2	5.4
In months of imports of goods and services	5.0	4.5	5.9	6.7	5.6	4.3	4.9	4.9	4.1	4.2	4.4
Gross international reserves without RSF (end-year, millions of U.S. dollars)	2,686	3,240	4,032	3,858	3,666	2,888	3,280	3,405	2,913	3,082	3,350
Total RSF disbursements	0	0	0	0	0	105	158	0	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	3.9	3.5
Public external debt-GDP ratio 3/ (in percent)	21.8	25.0	23.5	27.0	27.4	29.7	30.5	30.3	28.8	27.4	25.4
Nominal GDP	23,848	26,113	31,653	30,729	31,496	32,714	33,463	34,708	35,852	37,009	38,401
Resource exports (in percent of GDP)	30	33	38	36	36	36	36	36	36	37	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, 2021-2026

	2021	2022	2023	2024	2025	2026
				Est.	Proj.	Proj.
Bank of Papua New Guinea	**(In millions of kina; end of period)**					
Net foreign assets	8,221	11,116	10,726	9,620	5,683	7,134
Foreign assets	11,369	14,197	14,380	14,663	12,736	15,464
Foreign liabilities	3,148	3,081	3,654	5,043	7,053	8,331
Net domestic assets	-1,519	-2,437	-2,804	-1,380	2,429	1,482
Domestic credit	1,009	-592	215	578	1,059	1,345
Net credit to government	934	-743	-117	470	952	1,237
Claims on the government	3,581	3,383	3,264	3,621	3,452	3,487
Of which: Advances and holdings of inscribed stock and securities	2,319	2,051	1,926	2,154	1,926	1,926
Loans: IMF SDR Allocation	1,260	1,330	1,336	1,458	1,525	1,561
Central government deposits	2,648	4,126	3,380	3,150	2,500	2,250
Credit to other sectors	75	151	332	107	107	107
Other items, net	-2,528	-1,845	-3,019	-1,957	1,370	137
Of which: Central bank securities	-3,040	-2,655	-3,203	-2,382	-3,054	-5,607
Of which: IMF credit	1,293	1,233	1,882	3,344	5,466	6,786
Reserve money	6,702	8,679	7,922	8,240	8,113	8,615
Currency in circulation	2,666	2,970	3,256	3,468	3,849	4,114
Deposits of other depository corporations	4,036	5,709	4,666	4,773	4,263	4,501
Required reserves	1,794	2,910	3,267	3,816	3,187	3,468
Excess reserves	2,242	2,800	1,399	957	1,077	1,033
Other deposits	0	0	0	0	0	0
Depository Corporations Survey	**(In millions of kina; end of period)**					
Net foreign assets	8,678	12,038	11,954	10,526	6,689	8,208
Net domestic assets	18,409	19,023	22,196	21,454	22,559	23,282
Domestic credit	26,636	27,044	30,314	30,808	31,913	32,636
Net credit to central government	11,262	11,035	12,370	11,913	10,764	9,443
Claims on other sectors	15,374	16,009	17,944	18,895	21,150	23,193
Claims on the private sector	13,076	13,973	16,056	16,565	18,780	20,802
Other items, net	-8,227	-8,021	-8,118	-9,354	-9,354	-9,354
Broad money	27,087	31,060	34,150	31,980	29,248	31,490
Narrow money	22,107	26,032	29,863	28,148	25,569	27,959
Currency outside other depository corporations	2,152	2,363	2,657	2,739	2,630	2,524
Demand deposits	19,955	23,669	27,207	25,409	22,939	25,434
Quasi-money	4,980	5,029	4,287	3,832	3,679	3,532
Securities other than shares	0	0	0	0	0	0
	(Annual percentage change)					
Net foreign assets	10.8	38.7	-0.7	-11.9	-36.5	22.7
Net domestic assets	14.7	3.3	16.7	-3.3	5.2	3.2
Net domestic credit	15.9	1.5	12.1	1.6	3.6	2.3
Of which: Private sector	2.5	6.9	14.9	3.2	13.4	10.8
Broad money	13.4	14.7	9.9	-6.4	-8.5	7.7
Memorandum items:						
Reserve money (percentage change)	10.8	29.5	-8.7	4.0	-1.6	6.2
Gross international reserves (in millions of U.S. dollars)	3,240	4,032	3,858	3,666	2,993	3,543
Nominal nonresource GDP/Broad money	2.5	2.4	2.4	2.7	3.3	3.2

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

Table 5. Papua New Guinea: Financial Soundness Indicators, 2019-2024

(In percent)

	2019	2020	2021	2022	2023	2024
Capital Adequacy						
Capital to risk-weighted assets 1/	36.1	39.2	41.1	30.4	39.6	40.7
Tier 1 capital to risk-weighted assets	28.2	31.9	32.5	21.9	29.6	29.9
Asset Quality						
Nonperforming loans to total loans	3.8	5.3	6.2	4.8	5.4	4.7
Provisions to nonperforming loans	55.8	44.2	47.3	39.6	41.1	48.4
Earnings and Profitability						
Return on assets	4.1	3.8	4.4	3.9	3.9	4.2
Return on equity	14.4	28.8	33.1	28.8	24.3	27.2
Liquidity						
Liquid assets to total assets	17.7	18.3	18.9	22.5	19.2	19.6
Loan-to-deposit ratio	71.3	65.8	59.8	55.6	55.6	60.5
Other						
Tier 1 Capital to total assets	14.0	14.9	13.5	9.1	12.3	13.3
Risk-weighted assets to total assets	50.8	48.5	43.8	38.9	41.7	44.6

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: Schedule of Disbursements and Purchases Under the ECF/EFF Arrangements[1]

Availability date	Amount (SDR Million)			Percent of Quota			Conditions for disbursement/purchases
	Total	ECF	EFF	Total	ECF	EFF	
22 March 2023	65.81	21.94	43.87	25.0	8.3	16.7	Executive Board approval of the ECF/EFF arrangements.
18 September 2023	65.81	21.94	43.87	25.0	8.3	16.7	Observance of end-June 2023 performance criteria, and completion of the first review under the arrangements.
18 March 2024	94.75	31.58	63.17	36.0	12.0	24.0	Observance of end-December 2023 performance criteria, and completion of the second review under the arrangements.
18 September 2024	94.75	31.58	63.17	36.0	12.0	24.0	Observance of end-June 2024 performance criteria, and completion of the third review under the arrangements.
18 March 2025	121.07	40.36	80.71	46.0	15.3	30.7	Observance of end-December 2024 performance criteria, and completion of the fourth review under the arrangements.
18 September 2025	121.07	40.36	80.71	46.0	15.3	30.7	Observance of end-June 2025 performance criteria, and completion of the fifth review under the arrangements.
18 March 2026	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: Schedule of 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, 2021-2030

(In millions of US dollars)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
				Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total financing requirements	**-2871**	**-4587**	**-2512**	**-4322**	**-4267**	**-3524**	**-3122**	**-3468**	**-2923**	**-2553**
Current account deficit, excl. budget grants	-3284	-4567	-2799	-4986	-3548	-4241	-3929	-4226	-3943	-4389
of which RSF reform costs	0	0	0	0	0	0	0	0	0	0
Public sector loan amortization	342	131	241	325	426	519	552	1103	666	717
Interest and amortization on existing IMF loans	0	1	6	6	32	57	56	55	55	28
Reserve accumulation excl. RSF (-=fall in reserves)	217	836	-326	-446	-1176	141	199	-401	299	1091
Errors and omissions	-146	-988	367	780	0	0	0	0	0	0
Financing sources 1/	**-3873**	**-5378**	**-3115**	**-5063**	**-4840**	**-3836**	**-3272**	**-3468**	**-2923**	**-2553**
Capital account balance	6	7	4	4	7	7	7	7	7	7
Net foreign direct investments	-1646	-1264	-284	-961	-953	-984	-1014	-1042	-1069	-1093
Net portfolio investments	-33	-39	-29	8	-80	-80	-80	170	-80	-80
Public sector project loan disbursements	-456	171	762	1221	1257	1000	718	879	395	311
Other capital inflows (net)	-1744	-4253	-3568	-5335	-5070	-3779	-2903	-3482	-2176	-1698
Financing gap	**1002**	**791**	**603**	**742**	**573**	**312**	**150**	**0**	**0**	**0**
Prospective financing	**1002**	**791**	**603**	**742**	**573**	**312**	**150**	**0**	**0**	**0**
Bilateral budget support 2/	732	521	408	393	0	0	0	0	0	0
Multilateral budget support (excl. IMF) 2/	270	270	20	100	250	150	150	0	0	0
IMF financing	0	0	176	249	323	162	0	0	0	0
RCF	0	0	0	0	0	0	0	0	0	0
EFF	0	0	117	166	215	108	0	0	0	0
ECF	0	0	59	83	108	54	0	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	105	158	0	0	0	0
Reserve accumulation incl. RSF (-=fall in reserves)	217	836	-326	-446	-1071	299	199	-401	299	1091
Memorandum items:										
Annual IMF financing (percent of quota)	0%	0%	50%	72%	92%	46%	0%	0%	0%	0%
Cumulative IMF financing (percent of quota)	100%	100%	150%	222%	334%	405%	384%	357%	318%	273%
IMF share of financing gap (percent)	0%	0%	29%	34%	56%	52%	..	..	..	..

Sources: Papua New Guinea authorities; and IMF 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, 2025-2047 1/

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047
	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	97.1	83.4	57.1	57.1	51.2	33.7	-	-	-	-	-	-	-	-	-	-	-	-	-
Charges and interest	19.3	19.0	19.0	18.7	17.9	16.7	15.4	14.1	12.8	11.8	11.3	11.3	11.3	11.3	11.3	11.3	11.3	11.3	11.3	11.3	11.3	11.3	11.3
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	54.8	28.0	19.7	19.7	19.7	19.7	19.7	19.7	19.7	19.7	18.8	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	54.8	61.4	78.1	65.9	45.6	43.4	36.8	20.2	6.1	-	-	-	-	-	-	-	-	-	-	-	-
RSF	-	-	-	-	-	-	-	-	-	-	1.0	11.8	19.7	19.7	19.7	19.7	19.7	19.7	19.7	19.7	18.8	7.9	-
Charges and interest	22.3	31.6	35.1	34.9	34.0	32.3	29.7	27.0	24.3	21.8	19.9	18.8	18.0	17.2	16.5	15.8	15.0	14.3	13.5	12.8	12.0	11.5	11.3
Total Obligations Based on Existing and Prospective Credit																							
Millions of SDRs	47.6	86.1	93.8	106.7	140.3	152.4	147.5	150.4	141.3	120.8	75.9	46.7	37.5	36.8	36.1	35.3	34.6	33.8	33.1	32.4	29.6	19.2	11.2
Millions of U.S. dollars	63.2	115.0	125.6	143.2	188.5	205.3	198.8	202.7	190.4	162.7	102.2	62.9	50.6	49.6	48.6	47.6	46.6	45.6	44.6	43.6	39.9	25.9	15.0
Percent of exports of goods and services	0.4	0.7	0.8	0.8	1.0	1.1	1.0	1.0	0.9	0.8	0.5	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.0
Percent of debt service	1.3	2.7	3.7	4.5	8.0	8.4	7.1	6.7	6.2	5.2	3.2	1.8	1.3	1.2	1.0	0.9	0.8	0.7	0.6	0.6	0.5	0.3	0.1
Percent of GDP	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	0.0	0.0	0.0	0.0
Percent of gross international reserves	2.1	3.2	3.4	4.5	5.6	4.7	4.0	3.9	3.5	3.1	1.9	1.1	0.8	0.8	0.8	0.8	0.7	0.7	0.8	0.8	0.7	0.4	0.3
Percent of quota	18.1	32.7	35.6	40.5	53.3	57.9	56.1	57.1	53.7	45.9	28.8	17.7	14.3	14.0	13.7	13.4	13.1	12.9	12.6	12.3	11.3	7.3	4.2
Principal	10.0	20.0	21.4	26.4	39.4	44.7	43.9	46.2	44.0	37.3	20.8	10.6	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.1	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	20.8	23.3	29.7	25.0	17.3	16.5	14.0	7.7	2.3	-	-	-	-	-	-	-	-	-	-	-	-
RSF	-	-	-	-	-	-	-	-	-	-	0.4	4.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.1	3.0	-
Outstanding Fund Credit Based on Existing and Prospective Credit																							
Millions of SDRs	879.1	1,066.0	1,009.7	940.2	836.4	718.7	603.1	481.4	365.6	267.3	212.6	184.6	164.8	145.1	125.3	105.6	85.9	66.1	46.4	26.6	7.9	-	-
GRA	375.5	456.2	452.6	437.9	395.5	329.6	253.5	177.5	105.1	43.7	10.1	-	-	-	-	-	-	-	-	-	-	-	-
PRGT	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	196.4	184.6	164.8	145.1	125.3	105.6	85.9	66.1	46.4	26.6	7.9	-	-
Millions of U.S. dollars	1,167	1,424	1,352	1,262	1,124	968	813	649	493	360	286	249	222	195	169	142	116	89	62	36	11	-	-
Percent of exports of goods and services	7.6	9.2	8.4	7.4	6.2	5.1	4.2	3.3	2.4	1.7	1.3	1.1	1.0	0.8	0.7	0.6	0.4	0.3	0.2	0.1	0.0	-	-
Percent of debt service	23.6	33.9	39.4	39.7	47.4	39.7	29.0	21.4	16.0	11.6	8.9	7.3	5.9	4.6	3.6	2.7	2.0	1.4	0.9	0.5	0.1	-	-
Percent of GDP	3.6	4.3	3.9	3.5	3.0	2.5	2.0	1.5	1.1	0.7	0.6	0.5	0.4	0.3	0.3	0.2	0.2	0.1	0.1	0.0	0.0	-	-
Percent of gross international reserves	39.0	40.2	36.8	39.7	33.6	22.4	16.4	12.3	9.1	6.8	5.2	4.3	3.7	3.3	2.8	2.3	1.8	1.4	1.1	0.6	0.2	-	-
Percent of quota	334.0	405.0	383.6	357.2	317.8	273.1	229.1	182.9	138.9	101.6	80.8	70.1	62.6	55.1	47.6	40.1	32.6	25.1	17.6	10.1	3.0	-	-
GRA	142.7	173.3	171.9	166.4	150.3	125.2	96.3	67.4	39.9	16.6	3.8	-	-	-	-	-	-	-	-	-	-	-	-
PRGT	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	74.6	70.1	62.6	55.1	47.6	40.1	32.6	25.1	17.6	10.1	3.0	-	-
Net Use of Fund Credit (millions of SDRs)																							
Disbursements and purchases	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	54.8	28.0	19.7	19.7	19.7	19.7	19.7	19.7	19.7	19.7	18.8	7.9	-
Memorandum Items:																							
Exports of goods and services (millions of U.S. dollars)	15,294	15,489	16,153	17,031	18,002	18,904	19,202	19,692	20,292	20,909	21,547	22,270	23,023	23,806	24,621	25,470	26,354	27,275	28,094	28,654	29,225	29,808	30,402
Debt service (millions of U.S. dollars)	4,950	4,195	3,431	3,178	2,370	2,437	2,804	3,034	3,083	3,115	3,214	3,403	3,777	4,228	4,702	5,198	5,714	6,252	6,873	7,557	8,308	9,134	10,042
Nominal GDP (millions of U.S. dollars)	32,714	33,463	34,708	35,852	37,009	38,401	40,269	42,656	45,424	48,293	51,370	54,671	58,212	62,013	66,092	70,469	75,169	80,387	85,761	90,825	96,188	101,867	107,882
Gross International Reserves (millions of U.S. dollars)	2,993	3,543	3,669	3,176	3,346	4,326	4,968	5,252	5,400	5,327	5,474	5,806	5,966	6,003	6,118	6,234	6,345	6,446	5,624	5,710	5,797	5,885	5,974
Average exchange rate: SDR per U.S. dollars	0.75	0.75	0.75	0.75	0.74	0.74	0.74	0.74	0.74	0.74	0.74	0.74	0.74	0.74	0.74	0.74	0.74	0.74	0.74	0.74	0.74	0.74	0.74
Quota (millions of SDRs)	263.2	263.2	263.2	263.2	263.2	263.2	263.2	263.2	263.2	263.2	263.2	263.2	263.2	263.2	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 and Tier2A for the ECF.

Table 9. 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	**1967.3**	**100**	**1648.9**	**100**	**1694.2**	**100**
Concessional debt, of which	**304.0**	**15**	**180.3**	**11**	**180.3**	**11**
Multilateral debt	304.0	15	180.3	11	180.3	11
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	**1663.3**	**85**	**1468.6**	**89**	**1513.9**	**89**
Semi-concessional	1346.3	68	1151.6	70	1151.6	68
Commercial terms	317.0	16	317.0	19	362.3	21
By Creditor Type	**1967.3**	**100**	**1648.9**	**100**	**1694.2**	**100**
Multilateral	857.9	44	638.5	39	638.5	38
Bilateral - Paris Club	822.4	42	788.4	48	833.7	49
Bilateral - Non-Paris Club	188.0	10	132.7	8	132.7	8
Other	99.0	5	89.3	5	89.3	5
Uses of debt financing	**1967.3**	**100**	**1648.9**	**100**	**1694.2**	**100**
Infrastructure	1456.4	74	1246.5	76	1291.8	76
Social Spending	30.0	2	27.1	2	27.1	2
Budget Financing	310.9	16	256.4	16	256.4	15
Other	170.0	8.6	118.9	7.2	118.9	7.0
Memo items						
Indicative projections						
Year 2	**600.0**		**422.8**		**422.8**	
Year 3	**500.0**		**412.2**		**412.2**	

Type of New External Debt, USD million January 1, 2025, to December 31, 2025

By the type of interest rate	
Fixed Interest Rate	936.0
Variable Interest Rate	1031.3
Unconventional Loans	0.0
By currency	
USD denominated loans	1801.9
Loans denominated in other currency	165.4

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

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/], 2024-2026

	Debt Stock (end of period)			Debt Service					
	2024			2024	2025	2026	2024	2025	2026
	(In US$ million)	*(Percent total debt)*	*(Percent GDP) 5/*	*(In US$ million)*			*(Percent GDP)*		
Total	16310	100	54	5152	5034	4950	16	15	15
External	8339	51	27	475	568	711	2	2	2
Multilateral creditors 2/, 3/	4377	27	14	222	272	311	1	1	1
IMF	1098	7	4	6	27	63	0	0	0
World Bank	580	4	2	30	30	35	0	0	0
ADB	2587	16	9	179	208	203	1	1	1
Other Multilaterals	113	1	0	7	8	10	0	0	0
Bilateral Creditors 2/	3423	21	11	198	247	352	1	1	1
Paris Club	2339	14	8	86	118	221	0	0	1
o/w: Australia	1963	12	6	71	104	185	0	0	1
Non-Paris Club	1084	7	4	112	129	131	0	0	0
o/w: China EXIM	991	6	3	90	97	100	0	0	0
Bonds	500	3	2	41	42	42	0	0	0
Commercial creditors	39	0	0	14	7	7	0	0	0
Other international creditors	0	0	0	0	0	0	0	0	0
Domestic	7971	49	26	4677	4466	4239	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	23	12	3830	3664	3093	12	11	9
Bonds	3383	21	11	685	641	995	2	2	3
Loans	795	5	3	161	161	151	1	0	0
Memo items:									
Collateralized debt 2/, 4/	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Contingent liabilities	677	4	2	n/a	n/a	n/a	n/a	n/a	n/a
Nominal GDP	31496								

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

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, December 2024-June 2026

(In millions of Kina, unless otherwise specified)

	2024			2025									2026	
	December			March			June		September		December		March	June
	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)	4,810	**4,138**	met	1,159	**349**	met	2,203		3,020		3,516		**629**	**1,195**
Stock of net international reserves of the BPNG (floor, US$ millions)	2,050	**3,183**	met	1,988	**2,723**	met	1,925		1,863		1,800		**1,850**	**1,900**
BPNG's gross credit to government (ceiling)	2,400	**2,128**	met	2,400	**2,062**	met	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	**8.5**	not met	0	**8.5**	not met	0		0		0		**0**	**0**
Present value of new external debt contracted or guaranteed by the government (ceiling, US$ millions) 3/	1,425	**592**	met	810	**0**	met	810		810	**1,660**	810	**1,660**	**500**	**500**
C. Indicative Targets														
Non-resource tax revenue of the government (floor, cumulative from the beginning of the year)	14,677	**14,740**	met	3,268	**3,350**	met	6,537	**6,114**	12,173	**11,387**	16,676	**15,598**	**3,426**	**6,681**
New domestic payment arrears of the government (ceiling)	0	**0**	met	0	**0**	met	0		0		0		**0**	**0**
Social and other priority spending (floor, cumulative from the beginning of the year) 4/	4,059	**8,439**	met	550	**1,458**	met	1,650		4,008		5,500		**600**	**1,800**
Stock of unmet import-related FX payments in the orderbook (ceiling)	75	**40**	met	50	**0**	met	25		0		0		**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, 2025 and 2026.

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

Table 12. Papua New Guinea: Structural Benchmarks
(December 2024-June 2026)

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	Not met (*implemented with delay in March 2025*).
Submit to the Parliament amendments to the Internal Revenue Commission (IRC) Act 2014, in consultation with the IMF, to establish a Board for IRC's oversight.	To strengthen IRC's governance.	End-December 2024	Not met (**proposed to be reset to end-July 2025**).
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	Not met (*partially implemented*).
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	In progress.
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	In progress.
Carry out an in-depth analysis of tax expenditures, incentives and gaps currently affecting (or susceptible to affect) the corporate income tax base, which will include (i) the listing of existing tax expenditures and incentives; (ii) their estimated costing; and (iii) an assessment (at least qualitative) to what extent they are effectively meeting their desired policy objectives.	To broaden the corporate income tax base and increase the efficiency of tax expenditures and incentives.	End-March 2026	**Newly proposed.**
Modify the existing memorandum of understanding between the BPNG and the Treasury relating to T-bill and T-bond issuances and insert requirements for (i) the publication of the budget year's T-bill and T-bond auction calendar shortly after the parliamentary approval of the Budget, then to be updated on a quarterly frequency, and (ii) the publication of auction results according to a template to be designed with IMF support.	To improve the transparency of auctions and the predictability of issuances of government securities for market players.	End-September 2025	**Newly proposed.**
Governance and Operations of the BPNG			
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	Met (*January 2025*)

Table 12. Papua New Guinea: Structural Benchmarks (concluded) (December 2024—June 2026)			
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	Met (*since January 2025*)
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	In progress.
Develop and issue guidelines on emergency liquidity assistance (ELA), pursuant to section 76 of the Central Banking Act.	To operationalize the ELA framework and strengthen financial stability through a robust lender of last resort regime	End-December 2025	**Newly proposed.**
Align the draft interbank Master Repo Agreement (MRA) with the Global Master Repurchase Agreement (GMRA) standard and share it with commercial banks as an attachment to a formal letter explaining the benefits of adopting it.	To facilitate the development of a stable and efficient interbank market	End-December 2025	**Newly proposed.**
Governance and Anti-Corruption Framework			
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	Not met (**proposed to be reset to end-September 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	Not met (*partially implemented with delay in May 2025*)
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	Not met (*implemented with delay in April 2025).*
Publish the forestry sectoral risk assessment, including clear guidance and recommendations on improving the forestry sector's compliance with PNG's AML/CFT requirements.	To improve the forestry sector's compliance with PNG's AML/CFT requirements.	End-December 2025	**Newly proposed.**
Update "Guidance for Financial Institutions on their Obligations under the Anti-Money Laundering and Counter Terrorist Financing Act 2015 (No. 1 of 2019)" and "Guidance for Designated Non-Financial Businesses or Professions on their Obligations under the Anti-Money Laundering and Counter Terrorist Financing Act 2015 (No. 2 of 2019)" in consultation with Fund staff to include greater guidance on treatment of low-risk customers in accordance with the latest FATF guidelines, and sector-specific guidance for i) non-bank financial institutions, ii) lawyers, iii) accountants, iv) real-estate agents and v) precious metal dealers, which should include but not be limited to further guidance on risk assessment, obligations on politically exposed persons and reporting of suspicious transactions.	To improve understanding of ML/TF risks and fundamental AML/CFT obligations.	End-December 2025	**Newly proposed.**

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

Main Pillars	Key Challenge	Reform Measure	Diagnostic Reference	CD Input	RM Expected Outcome	Target Date	Status	Prospective BoP risk reduction
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.	In progress.	*Improved external, financial, and fiscal resilience to natural disasters.* Reduces ex-ante exposure to disaster risks, thus limiting potential financial losses while supporting investor confidence and attracting new investments (including FDI). Contains natural disasters-related damages and fiscal costs and facilitates rapid recovery of growth and net exports; and subsequently reduces external and fiscal financing needs.
	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.	In progress.	
	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.	In progress.	

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

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.	Met.	*Improved fiscal and external sustainability.* Limits adverse economic impact of climate-related shocks, including by reducing fiscal costs and the subsequent need for external financing. Reduces reconstruction needs and associated import demand. Facilitates rapid recovery of growth and net exports.
	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.	In progress.	
	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.	In progress.	

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

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.	In progress.	*Financial sector resilience.* Reduces financial sector losses when climate risks materialize, lowering recapitalization needs for banks. *Investment promotion.* Clarifying climate-related exposures attracts investments by reducing uncertainty. *Improved external sustainability.* Greater information on the availability of climate-related and resilient investments and lending activity can boost investor confidence and contribute to attracting external capital inflows.
	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.	In progress.	

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

4. Supporting mitigation policies	Fuel taxation does not take the carbon content of fuels into account, incentivizing fuel imports and consumption.	**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.	Delayed.	*External sustainability.* Consistent with fiscal sustainability considerations, this pillar: (1) Supports the transition to cleaner energy and electricity, thus reducing LT reliance on fossil fuel imports whose prices are volatile; and (2) Reduces forest degradation, which supports climate-resilient agriculture and the need for food imports. It also helps contain the impact of natural disasters on local communities, reducing the need for reconstruction-related imports.
	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.	In progress.	

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. Implementation of IMF Policy Recommendations[1]

Policy recommendations	Implementation
Continue fiscal consolidation to meet the requirement of the Fiscal Responsibility Act, strengthen debt sustainability and rebuild buffers against future shocks.	The authorities have consolidated the fiscal deficit by 1.9 percent of GDP between 2022 and 2024. They published the MTRS to identify revenue policy measures to mobilize revenues, passed the amendments to ITA, helping to simplify and modernize the tax system, and adopted a dividend policy to secure contributions from profitable SOEs. The authorities have also rationalized expenditure, including by taking steps to cleanse the public sector payroll.
Tighten monetary policy to maintain inflation under control and adopt a comprehensive approach to reinstating kina convertibility, including a review of the monetary policy framework, improvements to liquidity management, and a plan to gradually allow greater exchange rate flexibility and remove exchange restrictions.	The authorities have been implementing a comprehensive roadmap of central banking reforms since 2023. Achievements have included the adoption of a more modern liquidity management toolkit (7-day CBB, interest rate corridor, reserve averaging), and the shift to a crawl-like arrangement, associated with gradual removal of FX rationing measures and weekly auctions for FX interventions. Excess liquidity has largely been mopped up.
Address with support from Fund technical assistance the remaining weaknesses in the Central Banking Act related to mandate, governance, autonomy, transparency, and accountability.	Amendments to the Central Banking Act were adopted in September 2024. The amendments include clarification of price stability as the BPNG's primary objective, creation of a Monetary Policy Committee, independent of BPNG Board, reinforcement of the financial independence, mandate, and autonomy of BPNG, and establishment a lender of last resort regime.
Encourage further measures to increase financial inclusion and financial sector development.	The authorities are implementing its Financial Inclusion Strategy for 2023-2027, particularly in rural areas. Key reform areas include launching capacity building initiatives to strengthen financial literacy and education, access to microfinance in the agricultural sector, and strengthening the regulatory environment, consistent with AML/CFT requirements. The roadmap for structural reforms continues modernizing monetary policy operations, which helps support financial sector development. The recent issuance of banking licenses to three foreign banks has also increased competition in the sector.

[1] The IMF-supported ECF/EFF and RSF arrangements draw upon previous IMF policy recommendations, many of which are addressed in the authorities' LOI and MEFP.

Strengthen governance, including operationalization of the ICAC, and improvements in the AML/CFT framework and regulations and in transparency on procurement.	The ICAC has started investigating corruption cases and making arrests, although implementation of its full mandate hinges on sustained budget allocations. The authorities have been making steadfast progress in implementing the priority actions highlighted in the 2024 mutual evaluation report to enhance the effectiveness of the AML/CFT framework. The government has published details on all COVID-19 related procurement contracts.
Address vulnerabilities to climate change, with a focus on developing and financing climate adaptation projects, reducing the rate of deforestation and reaching PNG's nationally determined contributions.	The authorities are making progress in enhancing disaster risk management, integrating climate considerations in infrastructure governance, creating an enabling environment for climate finance and setting fiscal incentives for forest protection and energy efficiency, with the support of development partners.
Improve data quality and availability, including by addressing reporting lags and challenges in data compilation.	The quality of statistics is gradually improving, supported by extensive CD, including enhancements to the reliability of price statistics and the compilation and coverage of external sector statistics. The frequency and timeliness of fiscal, financial and monetary data is assessed as in line with international standards.

Annex II. External Sector Assessment

Overall Assessment: *Papua New Guinea's external position in 2024 was moderately weaker than the level implied by fundamentals and desirable policy settings. The estimated real effective exchange rate for 2024 was overvalued by 6.2 percent—somewhat higher than the estimated overvaluation in 2023 given that the appreciation of the Kina against key trade partners dominated its depreciation against the US dollar. Still, overvaluation has improved from 2022, which stood at 13.9 percent.*

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

Foreign Assets and Liabilities: Position and Trajectory

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

Current Account

Background. In 2024, the volume of goods exports expanded close to 9 percent from 2023, accelerating from a 2.1 percent gain one year earlier. The improvement was broad-based, given gains in mineral and petroleum shipments and a strong rebound of non-mineral export volumes. Meanwhile, commodity prices continued to fall in 2024, albeit at a milder pace than previously, as metal prices partially mitigated falling hydrocarbon prices. Overall, improving volumes led the 4.5 percent rebound in export values after falling by 12.4 percent in 2023. Following the strong post-pandemic recovery in the nominal value of goods imports, they recorded a contraction of 8.4 percent and 15.2 percent in 2023 and 2024, respectively, owing in part to lower energy prices and a moderation of non-mining activity. Consequently, the current account (CA) surplus in 2024 is estimated to have increased to 15.8 percent of GDP.

Assessment. The statistical challenges arising from the current account series have motivated continuous TA support and led to significant revisions of historical series by the authorities (see IMF 2023b, Annex V). While these data considerations are reflected in the adjustment to the CA norm (EBA-lite Model Estimates for 2024 table),[1] the CA model provides an assessment that may not be fully consistent with other macroeconomic fundamentals, resulting in the estimation of an undervalued currency despite ongoing FX shortages in the economy.

Hence, considering all estimates and the related uncertainties, and in line with recent ESAs, staff's assessment of PNG's external position is primarily based on the REER model, which has historically shown a more robust performance. This model's suggested overvaluation implies a CA gap of -2.0 percent of GDP, which is indicative that the external position is moderately weaker than the level implied by fundamentals and desirable policies. The assessment remains unaffected if we use the semi-elasticity of -0.33 estimated in Nakatani 2017 (and used in IMF 2023a and IMF 2024).

Papua New Guinea: EBA-lite Model Estimates for 2024

	CA model 1/	REER model 1/
	(in percent of GDP)	
CA-Actual	**15.8**	
Cyclical contributions (from model) (-)	0.4	
Natural disasters and conflicts (-)	0.0	
Adjusted CA	**15.5**	
CA Norm (from model) 2/	**-0.9**	
Adjustments to the norm (+) 3/	12.8	
Adjusted CA Norm	**11.9**	
CA Gap	**3.5**	**-2.0**
o/w Relative policy gap	0.9	
Elasticity	-0.3	
REER Gap (in percent)	**-10.8**	**6.2**

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

Real Exchange Rate

Background. The REER remained relatively stable over the past decade following the adoption of a *de facto* stabilized exchange rate regime. However, beginning in May 2023, the authorities introduced a crawl-like arrangement which facilitates a gradual nominal depreciation vis-à-vis the US dollar. This led to a NEER depreciation of 4.9 percent by year-end, while the REER depreciated by 4.1 percent. In 2024, the Kina registered an additional depreciation of 6.8 percent with respect to the US dollar, but it depreciated less with respect to the Euro (-0.9 percent) and the CNY (-4.1 percent) and appreciated relative to the Australian dollar (+2.6 percent) and the Japanese Yen (+3.0 percent). Overall, in 2024, the NEER and the REER depreciated by 3.7 percent and 7.9 percent, respectively.

Assessment. The EBA-lite REER model suggests that the Kina was overvalued by 6.2 percent at the end of 2024, somewhat higher than the estimated 4.9 percent in 2023, thus contributing to continued pressures in the domestic FX market. This overvaluation in the REER is broadly consistent with alternative high frequency (quarterly), fundamentals-based time series models for a commodity-intensive economy like PNG (more details available in Annex VI, IMF 2023b).

Capital and Financial Accounts: Flows and Policy Measures

Background. The capital account balance continues to be very small, amounting to USD4 million in 2024, in net terms. The financial account balance deficit widened to USD4.9 billion, from USD2.9 billion in 2023, recording a similar balance as in 2022. Net direct investment in 2024 amounted to around USD -1.0 billion (USD -0.3 billion in 2023), as investments abroad picked up. Portfolio investment and financial derivatives have traditionally been negligibly small. Most investment flows, including those related to large export proceeds that remain offshore, are captured as other investments.

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

FX Intervention and Reserves Level

Background. With limited domestic and external borrowing opportunities, PNG's external fiscal obligations and balance-of payment financing gaps typically need to be financed with reserves. In 2024, gross reserves moderated by USD 0.2 billion to USD 3.7 bn, covering 5.6 months of total imports (or 6.9 months of non-mineral imports) as BPNG's gradual reduction of the backlog of FX orders dominated foreign inflows (including loan disbursements). Over the past few years, the BPNG has been targeting a gross international reserves level of no less than USD2.0 billion to meet the economy's needs for FX.

Assessment. Despite the gradual retreat, still elevated commodity prices in 2024 and volume improvements supported FX inflows. As in recent years, the disbursement of external project financing and bilateral budget support typically occurred towards the end of the year, implying that FX position improved by year-end. The reserve adequacy assessment suggests that a floor of about USD2.0 billion appears sufficient to cover needs without severe disruption. However, a reserve path above this floor remains appropriate in the case of a fragile state like PNG, given the higher level of uncertainty it faces, and sensitivity of reserves to commodity prices. Going forward, addressing FX shortages with the aim of a gradual return to Kina convertibility, will require the orderly elimination of exchange restrictions and the adoption of a market-determined exchange rate.

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

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

IMF, 2024, Papua New Guinea: Second Reviews under Extended Arrangement under the Extended Fund Facility and an Arrangement under the Extended Credit Facility, and Request for Modification of Quantitative Performance Criteria-Press Release; Staff Report; and Statement by the Executive Director for Papua New Guinea, Country Report No. 2024/231 (Washington, DC: International Monetary Fund).

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

[1]Historical data on the CA balance in PNG was overstated due to long-standing challenges in classifying large income account outflows, including external debt service payments related to resource projects. On the back of consecutive TA missions, series have continuously been revised —and migrated to BPM6 standards (see Annex V in IMF Country Report No. 23/385)— a process that will endure under the current Fund-supported program. The improved data allow staff to estimate that the CA has undergone a structural change in the early 2010's, when the CA recorded significant deficits given large investments in natural resource projects, which were followed by surpluses close to 15pp of GDP once the projects entered their production phase (post 2015). Somewhat more moderate surpluses are expected to continue until at least the end of the decade, justifying the proposed adjustment to the norm (set equal to the average over 2014-2030).

Annex III. 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. 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**	**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 RSF arrangement.
Widespread social discontent and political instability. 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**	**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. Some major projects are being negotiated, but not yet included in the baseline.	**High** **(Upside risk)**	**High**: Favorable impact on GDP, external balance, and fiscal position.	Fast-track their implementation; Build fiscal and external buffers, and avoid Dutch disease effects, by enhancing the competitiveness of the non-resource sectors.

[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	
Commodity price volatility. Supply and demand volatility (due to conflicts, trade restrictions, OPEC+ decisions, AE energy policies and green transition) increases commodity price volatility, external and fiscal pressures, social discontent and economic instability.	**Medium**	**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, in line with capacity constraints, to support the most vulnerable but ensure fiscal consolidation remains priority. Build buffers to prepare for lower commodity prices.
Trade policy and investment shocks. Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains and trigger further US dollar appreciation, tighter financial conditions and higher inflation.	**High**	**High**: Given the USD as a currency anchor for the crawl-like arrangement, USD appreciation would result in Kina's appreciation against other trading partners' currencies, affecting export competitiveness negatively, and leading to downward price pressures. The current and financial accounts would worsen.	Maintain adequate level of foreign reserves. Proceed with the implementation of broad-based reforms to return to kina convertibility, reduce trade concentration risks, and improve business environment.
Sovereign debt distress. Higher interest rates, stronger US dollar, and shrinking development aid amplified by sovereign-bank feedback result in capital outflows, rising risk premia, loss of market access, abrupt expenditure cuts and lower growth in highly indebted countries.	**High**	**High**: The current and financial accounts would worsen and borrowing costs would increase, adding to existing debt vulnerabilities.	Continue with fiscal repair strategy to build buffers and reduce debt vulnerabilities. Maintain adequate level of foreign reserves and proceed with the implementation of broad-based reforms to return to kina convertibility
Cyberthreats. Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets), technical failures, or misuse of AI technologies trigger financial and economic instability.	**High**	**Medium**: Disrupt the provision of critical government services, trigger financial and economic instability with widespread social unrest.	Invest in advanced IT security systems and train key personnel on cyber/ ransomware attacks. Develop business recovery sites and backup for important government services and financial sector.

Annex IV. Data Issues

Annex IV. Table 1. Papua New Guinea: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
C							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	D	C	B	D	A	C	C
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	C	C	C	B	A		
Granularity 3/	D		B	C	A		
			B		B		
Consistency			B	D		C	
Frequency and Timeliness	D	C	A	D	A		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance* , January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund is adequate for surveillance.
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Data provision has substantial shortcomings on real sector and external sector that somewhat hamper surveillance. National accounts releases are annual (no quarterly data), often published with significant delay, and lacking expenditure-side components. The quality of external sector statistics (ESS) is hampered by large unexplained residuals, continuous and significant historical revisions, absence of International Investment Position (IIP) statistics and irregular publication. Commodity export data suffers from large variations between sources. In addition, the quarterly price statistics do not appropriately reflect current consumption patterns, as the CPI basket has not been rebased since 2012. The combination of these shortcomings has led to less-informed assessment of recent developments, and sometimes to significant short- and medium-term forecast revisions.

Changes since the last Article IV consultation. The quality of statistics is gradually improving, supported by extensive capacity development activities from the IMF and other development partners. For example, regional weights for the computation of CPI statistics have been updated, now more reflective of the distribution of population across the country. The coverage of ESS has somewhat improved, with the shift to the sixth Balance of Payments Manual (BPM6), combined with efforts to improve the recording of transactions and reduce the large errors and omissions.

Corrective actions and capacity development priorities. The authorities are committed to further improve the quality of statistics, including under the ongoing ECF/EFF arrangement. To enhance national accounts, the National Statistics Office (NSO) is working to develop the expenditure breakdown of GDP and to produce quarterly GDP, with IMF and Australia TA support, and is preparing the release of new census data, which faced delays due to longer-than-expected data collection and compilation. The NSO is also developing a monthly CPI release and plans to rebase the CPI basket. To improve ESS, the BPNG initiated an inter-agency working group in 2024, and continues to work closely with IMF's CDOT on the enhancement and expansion of ESS, including the production of IIP statistics.

Use of data and/or estimates different from official statistics in the Article IV consultation. No use of alternative statistics in general. In preparing the DSA, staff cross checks official data with the World Bank's IDS data, which provides with granularity on projected debt service on pre-existing debt for longer horizons than those provided by authorities.

Other data gaps. Climate change related data suffers from incompleteness and fragmentation. Several reform measures under the ongoing RSF arrangement will contribute to addressing some of the shortcomings, particularly for disaster risk mapping and maintenance data.

Annex IV. Table 2. Papua New Guinea: Data Standards Initiatives

Papua New Guinea participates in the Enhanced General Data Dissemination System (e-GDDS) and first posted its metadata in February 2012 but is yet to disseminate the data recommended under the e-GDDS.

Annex IV. Table 3. Papua New Guinea: Table of Common Indicators Required for Surveillance

As of April 30, 2025

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Papua New Guinea[8]	Expected Timeliness[6,7]	Papua New Guinea[8]
Exchange Rates	03/31/2025	04/2024	D	M	D	D	...	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	02/2025	04/2024	M	M	M	M	1M	1Q
Reserve/Base Money	02/2025	04/2024	M	M	M	M	2M	2M
Broad Money	02/2025	04/2024	M	M	M	M	1Q	2M
Central Bank Balance Sheet	02/2025	04/2024	M	M	M	M	2M	2M
Consolidated Balance Sheet of the Banking System	02/2025	04/2024	M	M	M	M	1Q	2M
Interest Rates[2]	12/2024	04/2024	M	Q	M	M	...	2M
Consumer Price Index	4Q2024	02/2025	Q	Q	M	M	2M	2M
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	N/A	N/A	N/A	N/A	A	N/A	3Q	N/A
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	12/2024	04/2025	M	M	Q	A	1Q	1Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	4Q2024	03/2025	Q	Q	Q	Q	2Q	2W
External Current Account Balance	3Q2024	04/2025	Q	Q	Q	A	1Q	24M
Exports and Imports of Goods and Services	3Q2024	04/2025	Q	Q	M	M	12W	4M
GDP/GNP	2023	01/2025	A	A	Q	A	1Q	1Q
Gross External Debt	4Q2024	03/2025	Q	Q	Q	Q	2Q	2W
International Investment Position[9]	N/A	N/A	N/A	N/A	A	N/A	3Q	N/A

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments. Lack of capacity prevented the authorities from providing the data.
[5] Including currency and maturity composition.
[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("I") irregular; and ("NA") not available.
[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.
[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."
[9] Lack of capacity prevented the authorities from providing the data.

Annex V. Enhancing PNG's Competitiveness and Attractiveness for Foreign Investment[1]

Papua New Guinea's (PNG) economy, which is increasingly dependent on resource-related activities and exposed to commodity price volatility, faces many structural vulnerabilities. This annex proposes a multipronged approach to make PNG more competitive and an attractive destination for foreign investment. While restoring the convertibility of the kina—a key policy objective under the ECF/EFF arrangement—remains critical to improving competitiveness, it should be complemented with reforms to reduce barriers to trade, diversify the economy, enhance infrastructure and human capital, and strengthen governance and law and order.

A. Current Situation and Policies

Current Situation

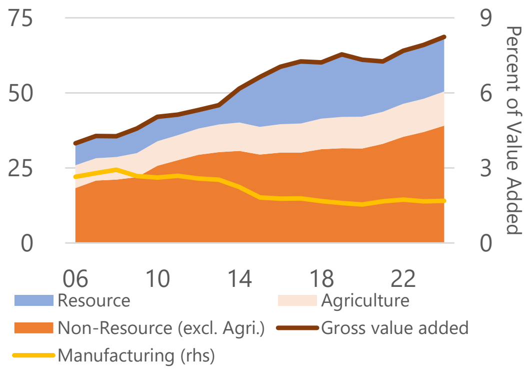
1. PNG's economy increasingly relies on resource-related activities. Boosted by the discovery of ores and LNG reserves, the mining and hydrocarbon resource sector has gradually gained weight in PNG's economic activity. It currently represents more than a quarter of gross value added, compared to less than 15 percent in the early 2010s, before the opening of the PNG LNG project (Annex V. Figure 1, left panel). Moreover, resource export volumes have grown by a factor of 2.5, leading to large trade balance surpluses and further FX accumulation, some of which have however been kept offshore (see Annex V. Figure 1, right panel). Other commodity sectors—which include agriculture, forestry, and fisheries—also have a significant weight in economic activity but represent a much smaller share in exports.

2. The export base is highly concentrated in terms of products and destinations, while import needs are large and broad-based (Annex V. Figures 2 and 3). Exports have become increasingly concentrated on a few goods (Annex V. Figure 2, left panel), mainly in the mining and petroleum sector—a trend that could further accentuate as planned resource projects advance and mining production ramps up. PNG's main exports—including LNG and Gold—represented just over 70 percent of total exports in the late 2010s but reached close to 80 percent of the volume of exports in the early 2020s. Given this heightened importance of the commodity sector, PNG is exposed to external shocks, particularly from global commodity markets (Nakatani, 2017). This exposure risk is compounded by a concentrated customer base, with China, Japan, Singapore, and Australia accounting for over 3/4 of PNG's shipments in 2023 (Annex V. Figure 2, right panel). Meanwhile, given PNG's largely undiversified economy, it remains heavily dependent on imported goods and services for production and consumption. This is confirmed by trade concentration indices, which show that while there is high market concentration for both exports and imports, product concentration is only prevalent for exports (Annex V. Figure 3).

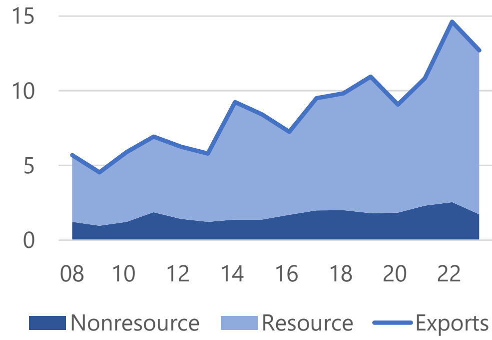
[1] Prepared by Fabien Gonguet, Miguel Ricaurte and Yue Zhou, with the technical support of Saraf Nawar.

Annex V. Figure 1. Papua New Guinea: Economic Structure

Real GDP (2013 Kina, Billion)



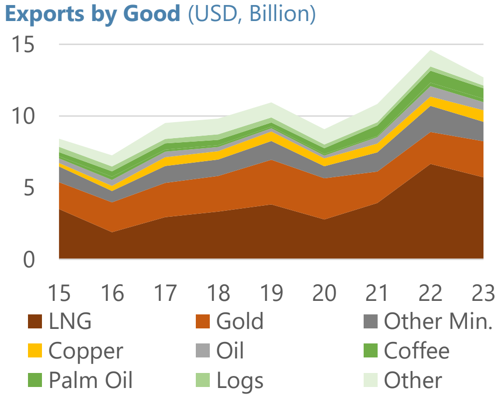
Exports (USD, Billion)



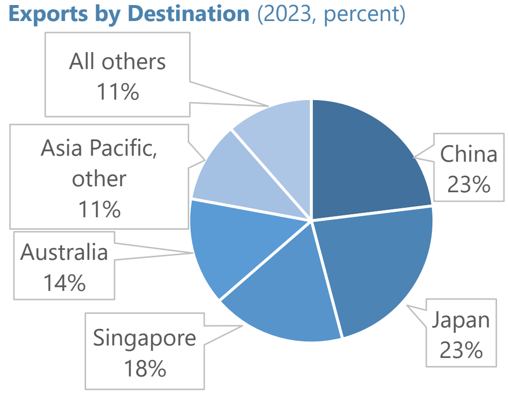
Source: BPNG.

Annex V. Figure 2. Papua New Guinea: Exports Market and Product Concentration

Exports by Good (USD, Billion)



Exports by Destination (2023, percent)



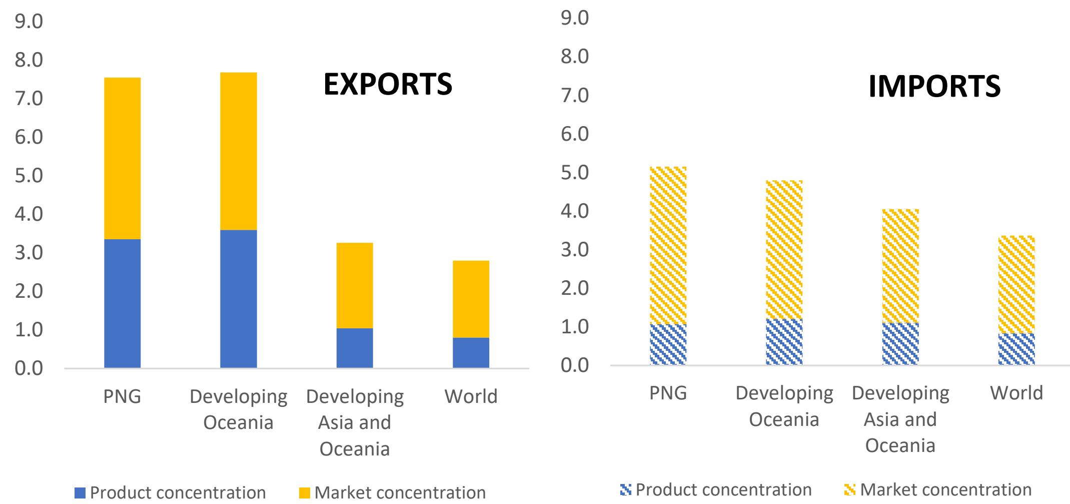
Source: BPNG.

3. Despite large and increasing resource sector exports, FX shortages have been persistent in recent years. While the current account balance moved further into positive territory thanks to resource exports, resource exporters are allowed to keep part of their export proceeds offshore, as per existing project development agreements, thus reducing FX inflows to the economy. In April 2014, as the kina was facing depreciation pressures from the end of the construction phase of the PNG LNG project and from the hydrocarbon price bust, the authorities chose to set a trading band for the exchange rate, moving *de facto* to a stabilized exchange rate regime and leading to the overvaluation of the kina. This misalignment of the currency, which varied in size but persisted over the years, has exacerbated the structural mismatch between FX supply and demand, contributing to FX shortages. Given the difficulty of accessing FX in timely fashion, resource exporters have kept even more export proceeds offshore, and some importers stopped their activities, causing import compression. Foreign firms have also refrained from bringing their dividend repatriation orders to the FX market, causing some hard-to-gauge pent-up FX demand. In that context, FX inflows have become growingly reliant on official borrowing (Annex V. Figure 4). While FX shortages started easing in 2024 (see ¶7), FX inflows remain susceptible to commodity price cycles and idiosyncratic (or regional) shocks, that could pose a risk not only to FX generation, but to fiscal accounts.

Annex V. Figure 3. Papua New Guinea: Trade Concentration Indices in PNG and Average Regional Comparators

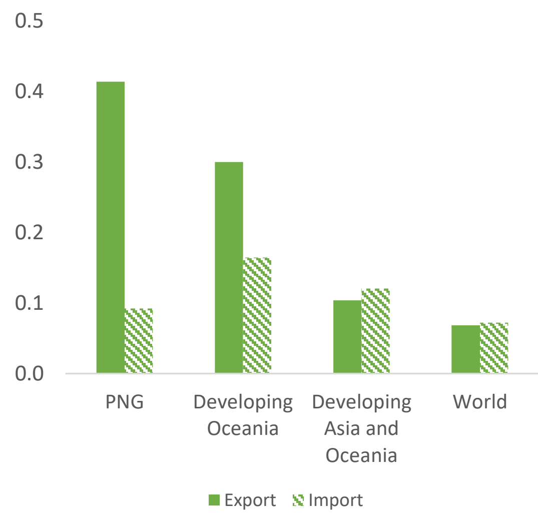
Theil Indices (2023)

Higher values indicate a higher degree of concentration and lower export/import diversification.



Herfindahl-Hirschmann Index (2023)

Higher values indicate higher degree of product concentration.



Source: UNCTAD.

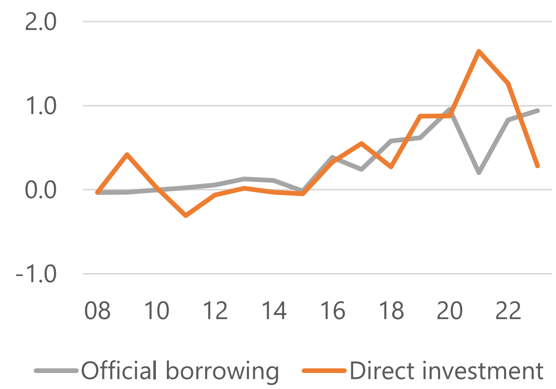
Notes:

- **Theil indices:** Theil indices measure both export/import concentration in the basket of exported/imported products (excluding services) and in the set of export/import markets of an individual economy or a group of economies. They are derived from all bilateral export/import flows of all individual products and are further decomposed additively into two sub-indices: one to measure product concentration and another to measure market (per product) concentration. Higher values indicate a higher degree of concentration and lower export/import diversification. See additional metadata and formula at: unctadstat.unctad.org/datacentre/reportInfo/US.MerchTheilIndices
- **Herfindahl-Hirschmann Index:** the Herfindahl-Hirschmann Index is a measure of the degree of product concentration. It is normalized in order to obtain values between 0 and 1. An index value closer to 1 indicates a country's exports or imports are highly concentrated on a few products. On the contrary, values closer to 0 reflect exports or imports are more homogeneously distributed among a series of products.
  See additional metadata and formula at: https://unctadstat.unctad.org/datacentre/dataviewer/metadata/dimension/US.ConcentDiversIndices/indicator

4. **PNG faces additional significant structural challenges, which further hamper competitiveness and discourage investment.** Annex V. Figure 5 shows how PNG fares against the average Pacific Island (PI) and the Asia-Pacific (AP) country on freedom of trade, business regulation, governance, and access to infrastructure indicators. PNG is lagging particularly in terms of governance, with lower scores than the average PI or AP country across all six dimensions of the WB's Worldwide Governance Indicators, particularly for control of corruption, government effectiveness, rule of law, and political stability. Access to key infrastructure is also lagging, especially in the power, water, and transportation sectors, due to the combination of a challenging geography, limited investment efficiency and low maintenance spending. Meanwhile, the picture in terms of

freedom of trade and business regulations is mixed. PNG showcases lower tariffs, fewer capital controls and more flexible labor regulations than the average AP country. However, it has lower financial openness than the regional average and local businesses face higher bureaucracy and price controls—gaps that have severely worsened in the past decade, thus hampering PNG's competitiveness.

Annex V. Figure 4. Sources of FX inflows in PNG (USD billion)



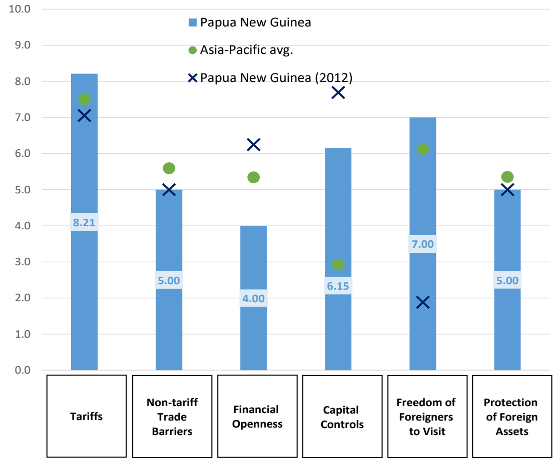
Source: BPNG.

5. **According to business leaders' perceptions, FX shortages are the most critical impediment to business operations, closely followed by many of the structural challenges described above.** Based on the results of the latest annual survey of PNG's business leaders (Business Advantage PNG 100 CEO Survey), access to foreign exchange is considered as the most critical impediment to doing business in PNG (Annex V. Figure 6), as has been the case in most recent years.[2] Other key impediments include governance-related shortcomings (weak law and order, corruption), infrastructure constraints (unreliable utilities and telecommunications, weak logistics), limited local capacity issues (lack of government capacity, shortage of domestic skills, supply chain constraints, lack of market intelligence, lack of office space, limited available land), and high costs (inflation, labor costs, real estate costs). Although the perceived impact of most of these impediments on business operations has somewhat eased in 2025 relative to 2024, tackling them should remain highly relevant to PNG policymakers.

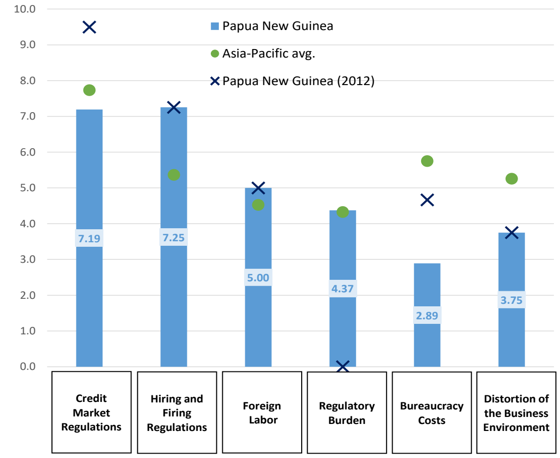
[2] Out of the ten annual surveys conducted since 2016, access to foreign exchange was listed as the top impediment every year except in 2019 (3rd) and 2022 (6th).

Annex V. Figure 5. Papua New Guinea: Key Structural Gaps Relative to Best Performers among Emerging and Developing Asian Countries Comparator Groups

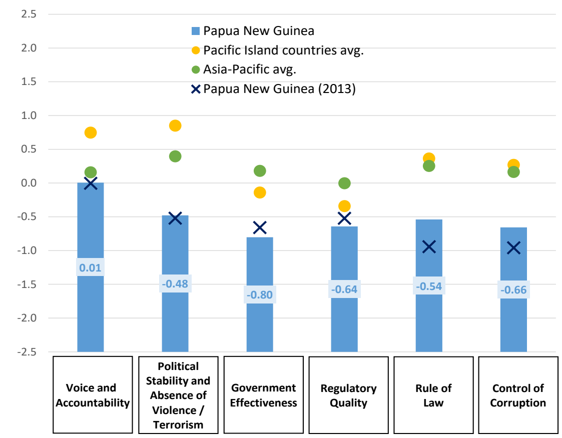
Freedom of trade (2022)



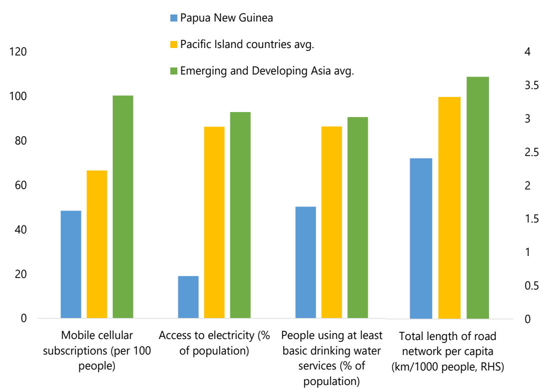
Business regulations (2022)



Governance (2023)



Access to infrastructure (2022)

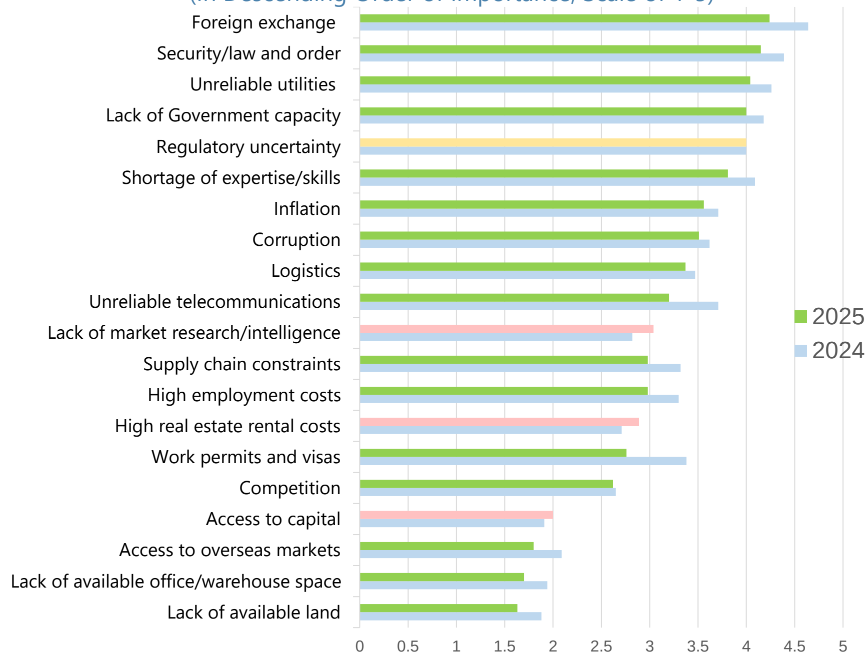


Sources and notes:

- **Freedom of trade:** Fraser Institute's Economic Freedom Index (2022), based on IMF, WEF, WB, WTO, and EIU data. All indicators have a 0-10 scale. A higher Tariffs score indicates lower tariff revenues, lower mean tariff rates and lower variation across tariff rates. A higher Non-tariff Trade Barriers score indicates lower tariff and non-tariff trade barriers. A higher Financial Openness score indicates lower restrictions on cross-border financial transactions. A higher Capital Controls score indicates fewer international capital controls levied, based on the IMF AREAER typology. A higher Freedom of Foreigners to Visit score indicates a lower percentage of countries for which a country requires a visa from foreign visitors. A higher Protection of Foreign Assets score indicates higher prevalence of foreign assets, lower risk of expropriation, and lower impact of rules on foreign direct investment.
- **Business regulations:** Fraser Institute's Economic Freedom Index (2022), based on IMF, WEF, WB, CIA, IHS Markit and EIU data. All indicators have a 0-10 scale. A higher Credit Market Regulations score indicates larger shares of deposits held in privately owned banks, higher shares of private sector credit, more reduced deposit/lending rate spreads and more positive real interest rates. A higher Hiring and Firing Regulations score indicates less restrictive labor laws and regulations. A higher Foreign Labor score indicates fewer regulations hindering the ability to hire foreign labor. A higher Regulatory Burden score indicates a lesser burden of government regulation, as perceived by business leaders. A higher Bureaucracy Costs score indicates less risk that business operations become more costly due to the regulatory environment, bureaucratic inefficiency and/or opacity. A higher Distortion of the Business Environment score indicates fewer price controls and government controls over business activities.
- **Governance:** World Bank's Worldwide Governance Indicators (2023), combining data sources from more than 30 think tanks, international organizations and private firms to build aggregate indicators of six dimensions of governance. All indicators have a -2.5 to +2.5 scale. Higher scores indicate better governance. Full methodology is available at https://www.worldbank.org/en/publication/worldwide-governance-indicators.
- **Access to infrastructure:** IMF staff calculations, based on World Bank's World Development Indicators and CIA data.

Annex V. Figure 6. Papua New Guinea: Most Critical Impediments to Doing Business in PNG According to Business Leaders

(In Descending Order of Importance, Scale of 1-5)



Source: Business Advantage 2024 and 2025 PNG 100 CEO Surveys.
Note: Color code for 2025 scores: green when improved relative to 2024; yellow when unchanged relative to 2024; red when degraded relative to 2024.

Recent Policies

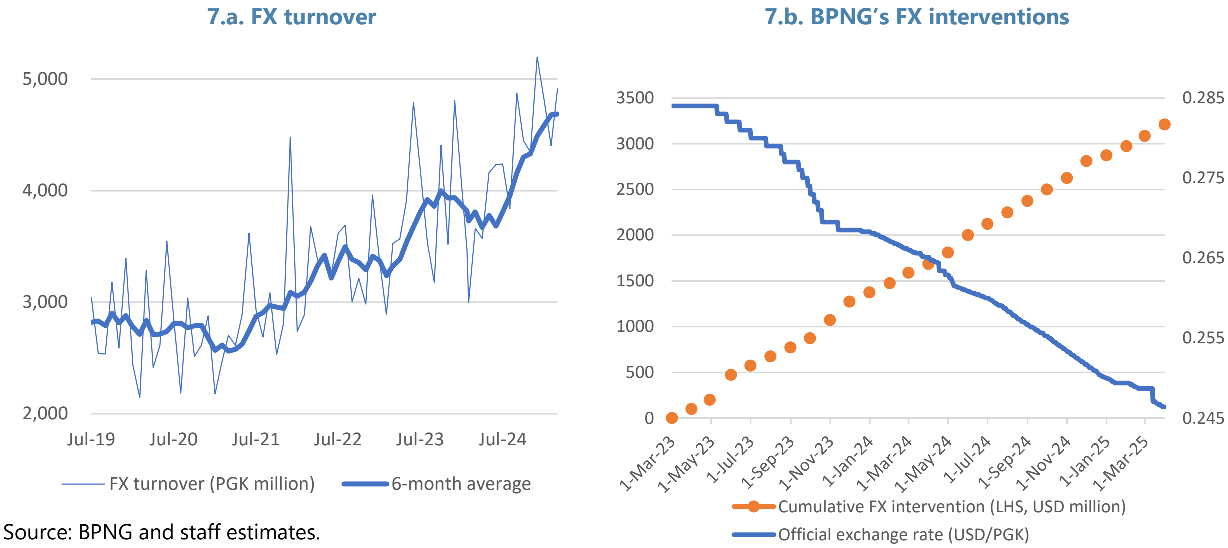
6. The authorities are gradually bringing the exchange rate to equilibrium and making it more flexible, including by starting to phase out exchange restrictions. Ensuring the gradual return to kina convertibility is a key commitment under the ECF/EFF arrangement. To that end, the Bank of Papua New Guinea (BPNG) has been making progress in implementing its Roadmap of central bank reforms since August 2023, which, among others, aims to alleviate FX shortages. Achievements thus far include the shift to a *de facto* crawl-like arrangement in January 2024 and the gradual narrowing of the Kina's overvaluation.[3] While the authorities have started easing FX rationing measures, the prioritization of FX orders by FX dealers remains critical to preserve liquidity and to avoid disorderly capital outflows, as long as the mismatch between FX supply and demand persists.

7. These reforms have contributed to improving the FX market turnover and easing FX shortages. FX turnover improved significantly since the beginning of the ECF/EFF arrangement, supported by the combined gradual depreciation, increased FX provision to the market by the BPNG, high export prices and changes in arrangements for fuel imports (Annex V. Figure 7.a). Since

[3] The arrangement allows for moderate fluctuations around it, while preventing exchange rate overshooting. In addition, the high passthrough from the exchange rate to inflation supports the notion of managing the exchange rate for price stability purposes (BPNG's primary mandate). For more details, see Annex II of the staff report on the First Reviews of the ECF and EFF Arrangements for Papua New Guinea (IMF Country Report No. 23/385)

the beginning of the ECF/EFF arrangement and as of end-March 2025, the BPNG has sold USD3.2 billion of FX to help bridge the gap between FX supply and demand and help cover essential FX orders (Annex V. Figure 7.b).

Annex V. Figure 7. Papua New Guinea: FX turnover and BPNG Intervention



Source: BPNG and staff estimates.

8. The implementation of the authorities' wider structural reform agenda, supported by the ECF/EFF and RSF arrangements, is contributing to addressing many critical impediments to business in PNG. The recent amendments to the Income Tax Act aim at streamlining income tax regulations and reducing their complexity, which have been a burden for businesses and for the Tax Administration. The fiscal consolidation strategy is designed to help preserve and allocate more resources to priority sectors, such as law and order and infrastructure, and—by gradually reducing the government's financing needs—create space for private sector credit and foster financial sector development. The operationalization of the Independent Commission Against Corruption (ICAC) is expected to help fight corruption more effectively. Key reform measures under the RSF arrangement should also contribute to enhancing climate resilience of infrastructure. Last but not least, the authorities have been benefitting from extensive technical assistance on these topics (and many others), contributing to strengthening government capacity and efficiency.

9. In the following sections, we consider what additional reforms are needed to durably enhance export competitiveness and attractiveness for foreign investment. We will successively examine price competitiveness measures (Section B) – relating to the exchange rate, taxation and tariffs, and other costs – and non-price competitiveness measures (Section C) – relating to trade policies, or to wider business-conducive policy areas.

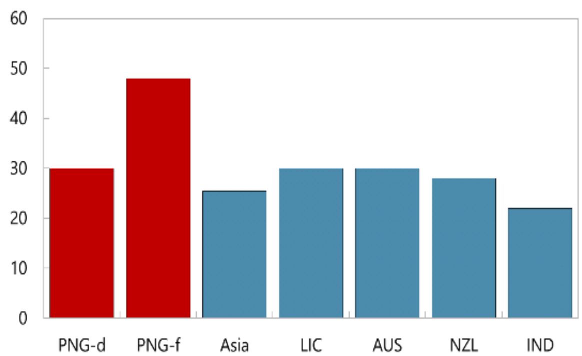
B. Enhancing PNG's Price Competitiveness

10. Durably tackling the misalignment of the exchange rate remains a major element of the reforms needed to enhance growth and improve competitiveness. There is extensive literature on the negative effects of currency overvaluation on growth and competitiveness (Subramanian et al. 2007, Razin and Collins 1997). The overvaluation contributes to a misallocation of resources, as it is akin to a tax on domestic production and a subsidy on imports. Bringing the kina to its market-clearing rate will help alleviate FX shortages and make exports more competitive, thus increasing the country's attractiveness for foreign investment. Expectations of currency appreciation related to the construction phases of major resource projects in the pipeline could further attract foreign investors. Going forward, the authorities should carefully weigh the pros and cons of continuing to tackle the remaining overvaluation gradually. While a slower convergence to exchange rate equilibrium can help limit inflationary pressures and thus be more politically and socially feasible, it may deter foreign investment if it generates expectations of further weakening. In addition, the sustained need for FX interventions in the interim constitutes an expensive drain on FX reserves. While, initially, urban households and importing firms may face higher prices, they would ultimately benefit from the end of import compression and the increase in business activity stemming from FX being more readily available. Rural households deriving income from agricultural commodity exports, which represent up to half of PNG's population, should however benefit rapidly from the depreciation by making them more competitive; the broader agricultural sector can also benefit by making domestically produced agricultural goods relatively cheaper than imported goods.

11. Transportation costs and risk premia adversely affect the pricing of PNG's trade. PNG grapples with some of the highest maritime transport costs in the AP region, due to the remoteness and island structure of the country, but also its relatively limited trade and transportation infrastructure. Like other PI countries, maritime connectivity in PNG is significantly lower than that of low-income peers (Annex V. Figure 9), which contributes to elevating the cost of trade. According to the World Bank data, the average cost to export goods from PNG stood at $700 in 2019, the most recent year for which figures are available, compared to $460 from Singapore and $572 from Indonesia. In addition, because of FX shortages, there is anecdotal evidence that foreign companies exporting goods and services to PNG may have embedded risk premia in their cost structure, so as to hedge themselves against potential delays in getting bills paid. This could contribute to higher import prices than in the absence of FX shortages.

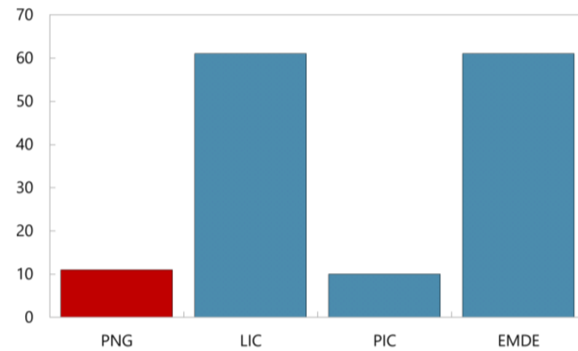
12. Taxation and tariffs do not appear to be major impediments to PNG's competitiveness. The statutory corporate income tax (CIT) rate in PNG is at the higher end across comparators (Annex V. Figure 8), with rates of 30 percent for resident nonfinancial companies (45 percent for banks) and 48 percent for non-resident companies. That said, the level of the CIT rate does not seem to act as a major impediment to activity, and is not highlighted as an issue in business surveys, possibly reflecting lower effective CIT tax rates for most sectors. PNG's trade tariffs are generally applied on a non-discriminatory basis, with a simple average of Most Favored Nation (MFN) rate at 3.9 percent, down from 5.1 percent in 2010 (WTO 2019). That said, import duty protection rates, which were initially implemented to protect specific domestic industries against competition from cheaper imports, could be revisited to strike the right balance between managing costs for consumers and supporting domestic production, particularly given that the depreciation of the kina is benefitting the latter.

Annex V. Figure 8. Papua New Guinea: Statutory Corporate Income Tax Rate
(Percent, 2018)



Sources: OurWorldInData, PwC and IMF staff calculations.
Note: PNG-d refers to CIT rate for resident companies, and PNG-f refers to CIT rate for non-resident companies.

Annex V. Figure 9. Papua New Guinea: Liner shipping connectivity index (2021)



Sources: WDI and IMF staff calculations.
Note: The LSCI is defined as an index that considers various factors, including the total number of shipping services available to and from the country, the number of container ships serving the country, the capacity and frequency of these services, and the connectivity of ports with major global shipping routes. A higher LSCI indicates better connectivity, facilitating trade and economic growth by providing more efficient access to international markets.

C. Enhancing PNG's Non-Price Competitiveness

Trade policies (other than price-related)

13. Addressing non-tariff barriers is crucial for enhancing PNG's trade competitiveness and improving its investment climate. Despite efforts to improve customs procedures, PNG still faces challenges related to efficiency and transparency. An earlier report by APEC (2011)[4] shows that time taken to clear imports and exports in PNG customs stood at four days, significantly higher than the regional average of 1.6 days. Simplifying export-related regulations and streamlining custom procedures could help boost exports.

14. PNG is a signatory to four regional trade agreements (RTAs),[5] which are expected to increase PNG's market access and investment flows. However, the overlapping membership of these four RTAs may result in complex trade regimes, which could contribute to higher business costs and potentially lead to more trade (and investment) diversion than creation (WTO 2019). Prioritizing harmonization and simplification of rules of origin across all agreements could help address the overlaps of these RTAs and facilitate regional trade.

[4] Trade Facilitation through Customs Procedures: Assessment of APEC's Progress

[5] The four RTAs are (i) the European Union–PNG/Fiji Economic Partnership Agreement (EPA); (ii) the Melanesian Spearhead Group Trade Agreement (MSGTA); (iii) the Pacific Island Countries Trade Agreement (PICTA); and (iv) the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA).

15. These efforts should be combined with policies aimed at increasing FX receipts from commodity exports and at enhancing export capacity.

- **To increase FX returns from hydrocarbon and mineral exports, the government should focus on negotiating favorable FX arrangements during the contracting phase of new resource projects.** Establishing a framework that encourages commodity exporters to keep FX proceeds onshore can help increase FX inflows from the growing resource sector and significantly benefit the national economy. When possible and/or appropriate, renegotiating more favorable terms under existing contracts could also be considered.

- **The agricultural sector in PNG has the potential to enhance export capacity.** While agriculture accounts for 18 percent of GDP, its contribution to total exports remains limited. Coffee production, mainly arabica, is vital to the rural economy in the Highlands, with strong demand capable of absorbing double the current volume of high-quality smallholder products, as shown by double-digit annual growth in coffee exports to over 30 countries since 2021. However, challenges persist in meeting market quantity and quality demands, including: (i) insufficient tailored extension packages and replanting strategies, as most coffee trees are over 40 years old; (ii) market access constraints that lower farm-gate prices and reduce investment incentives for smallholders; and (iii) inconsistent quality between smallholder and plantation production methods. To enhance the coffee industry's quality and productivity, efforts should be directed at integrating it further into the global value chain, prioritizing projects aiming at expanding or reviving production, and supporting growth of small- and medium-sized enterprises, including by improving access to finance. Commodity boards have proven to be helpful bodies to develop new export markets, establish consistent branding, provide industry information and enable access to government resources and programs.

16. A broader economic and export diversification strategy would be beneficial, given the high concentration of exports in PNG (Annex V. Figure 3). In general, diversifying domestic production, exports and imports can improve the resilience to external shocks (IMF 2014, Cerdeiro and Plotnikov 2017) and lead to reductions in poverty and inequality, especially when investing in new, labor-intensive or technologically advanced sectors (Acemoglu and Autor 2011). In the case of resource-rich countries, a diversification strategy can help mitigate exposure to commodity price volatility and reduce Dutch disease risks.[6] Diversification policy options in PNG, which could be deployed over the medium to long run and supported by government incentives, including special economic zones (see next paragraph), could include (i) investing in new sectors or new products where PNG has some established comparative advantage or potential (e.g. tourism, or broader Blue

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[6] Dutch disease (or resource curse) effects can occur in the aftermath of sudden increases in FX inflows, particularly in the context of the development of large resource projects. Typical effects include: (1) the rapid appreciation of the currency, which makes exports less competitive and may lead to non-resource tradable sectors gradually shrinking, and makes imports cheaper, leading to lower demand for domestically produced goods; (2) a shift of resources towards the non-tradable sectors, which may lead to price increases if production is unable to meet fast-rising demand.

Economy – see Box 4); (ii) upgrading the quality of existing products and/or introducing new, higher-value goods and services; (iii) diversifying trading partners to avoid concentration risks.

17. Special economic zones (SEZ) could potentially boost PNG's potential, although they should be used carefully and properly designed. Following the 2019 SEZ Authority Act, the PNG government has already licensed two SEZs, with another eleven in the pipeline, with the objective to industrialize and diversify the economy away from natural resources into new areas such as tourism and downstream processing. Experience in AP countries show that SEZs are most successful when backed by a clear strategic objective consistent with the medium-term development plan. Moreover, it should be based on actual business demand and appropriate incentives for the private sector, and supported by effective implementation capacity (Zeng 2021). In PNG, the definition of tax incentives under the SEZ Act is broad and expansive. This could potentially pose significant risk to revenue integrity in case of large foregone revenue or domestic profit shifting schemes. Well-targeted and curtailed tax incentives, focusing for instance on non-traditional export sectors and excluding mining and petroleum sectors, could mitigate these risks (IMF 2024). The strategic guidelines for the establishment of SEZs and local ownership of SEZ investments should be swiftly finalized and adopted.

Business Environment

18. Making the business environment more attractive for foreign investors or for domestic investment with potential for high FX inflows (e.g. tourism) requires broad-based reform efforts. Policy priorities to enhance the business environment can be guided by both the structural gaps and the impediments to business discussed above. Specifically, policy priorities should include:

- **Strengthening law and order.** In PNG, security concerns stem from the combination of heightened tribal and social tensions (armed tribal conflicts in some regions, social unrest episodes which can lead to riots and urban property destruction, like in January 2024) and very limited public security forces to maintain order, protect property and ensure law enforcement. This tends to either deter investment or increase fixed costs, given that active businesses would mitigate this impediment by relying on private security services or developing their own secure compounds. This calls for continuing to preserve fiscal space for increased spending in security, justice and law and order sectors, with a focus on urban and activity-intensive areas, and for building crime prevention, law enforcement and prosecution capacities.

- **Improving infrastructure efficiency.** Further capital investment is needed, particularly to increase the density of network infrastructure across the country (power, transportation, water and telecommunications). Routine and capital maintenance spending is also needed to alleviate the effects of the gradual aging of infrastructure assets, reduce future repair costs and improve the reliability of utilities (Blazey et al. 2020). Given the limited fiscal space, this needs to be complemented by public investment management reform efforts, to improve the economic outcomes obtained from each dollar spent on infrastructure (IMF, 2015 and 2018), avoid wasteful spending and delays, and contribute to improving climate resilience (IMF, 2021). Key reform priorities to enhance infrastructure efficiency in PNG include:[7] (i) ensuring that the infrastructure gaps, as identified in the authorities' Medium-term Development Plan IV, inform the selection of investment projects to be included in the budget or in SOE investment plans; (ii) strengthening the project appraisal process in order to ensure sound design, enhance cost efficiency, and strengthen resilience; (iii) developing methodologies to assess routine and capital maintenance needs, including for adaptation needs; (iv) strengthening the financial position of utility SOEs, particularly in the power and water sectors, so they can properly maintain their infrastructure and ensure the delivery of high-quality, reliable utilities.

- **Developing domestic and skilled labor resources.** The shortage of expertise skills and high employment costs are among the main impediments to doing business in PNG, which has led businesses to rely on a large share of foreign workers, particularly for middle to high-skilled worker needs (ILO 2017). The potential from the large working-age population, which represents at least 60% of total population, is largely untapped; most jobs are low-skilled and in the informal sector. Formal employment only represented about 4 percent of the population in 2020, with about a quarter of the total workforce in the government sector, another quarter in agriculture, about 13 percent in manufacturing and only 7 percent in the mining and petroleum sector. Key reform priorities to improve domestic labor outcomes in PNG include: (i) preserving and increasing spending in the education sector, with a priority focus on ensuring universal enrollment in the primary and secondary levels, on developing domestic tertiary education and vocational training capacity, and encouraging programs for college study opportunities in other countries; (ii) analyzing data on the delivery of foreign worker permits (database maintained by the Department of Labor) and creating new incentives for foreign firms to hire local workers, particularly for middle-skilled positions at first; (iii) facilitating the issuance of work permits and visas for foreign skilled workers for sectors that face labor shortages; and (iv) developing easily-accessible job placement services for local workers, building on existing websites, to improve the matching of labor supply and demand.

- **Enhancing governance and AML/CFT framework.** Good governance can help foster economic growth and boost exports by decreasing costs of economic transactions and creating a stable and predictable business environment (Ivanyna and Salerno 2021, Acemoglu and Robinson 2010, Anderson and Gatignon 1986). Laws and regulations are often complex and difficult to access, potentially representing a barrier to entry for new investors. The largely customary land tenure rights can prove a particularly significant bottleneck for securing land for new investment projects. And the recent mutual evaluation report by the Asia-Pacific Group on Money Laundering (APG) has identified critical shortcomings on the AML/CFT framework, which, if not resolved, may lead to high-risk premia and further reduce the attractiveness of PNG for foreign investors. Reform priorities include: (i) continuing to operationalize the anti-corruption framework, in particular by ensuring that the ICAC gets the proper resources to carry out its mandate; (ii) addressing the gaps in the AML/CFT framework; (iii) streamlining the legal and

[7] The upcoming IMF Public Investment Management Assessment, requested by the PNG authorities, will help provide a comprehensive diagnostic and identify key reform priorities to strengthen infrastructure governance and improve investment efficiency.

regulatory framework applicable to businesses and setting up one-stop-shop access to regulations as a way to level the playing field; and (iv) reviewing laws and regulations pertaining to land ownership and management and explore innovative ways to facilitate access to land for investors while preserving customary land tenure rights.

Conclusion

19. Improving PNG's competitiveness and attractiveness for foreign investment requires a multipronged, multisectoral strategy. While tackling the misalignment of the kina and restoring its convertibility are necessary elements of the strategy, additional complementary steps are needed to address the structural impediments for doing business, including by closing infrastructure gaps, enhancing human capital, improving governance, and ensuring adequate law and order. Reducing non-tariff barriers and facilitating greater economic diversification would also help increasing PNG's competitiveness and reduce its dependence on commodity exports. The planned formation of the Working Committee on Foreign Exchange Repair, which would explore options to address FX shortages, could also consider wide-ranging structural reforms to enhance price and non-price competitiveness, with a focus on the key impediments to activity highlighted by business leaders. These reforms should not come at the expense of the integrity of the fiscal repair strategy; in particular, tax incentives and additional spending priorities will need to be carefully assessed so as not to impede progress made in reducing debt vulnerabilities and mobilizing revenue.

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Appendix I. Letter of Intent

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

May 27, 2025
Port Moresby

Dear Ms. Georgieva:

The Government of Papua New Guinea has continued to steadily implement its homegrown agenda of structural reforms, supported by the International Monetary Fund (IMF) and other international partners. Thanks to these reforms, we have been making significant headway in addressing longstanding bottlenecks to growth and improving the living standards of our people, in line with our poverty reduction and growth strategy. These have comprised diversifying growth drivers, including by redirecting economic policy effort towards the rural sector and SMEs and enhancing financial inclusion and literacy; improving the resilience of our economy to climate change and scaling up access to climate finance; revamping public finance including seeking greater returns from our resources, investing in infrastructure, containing wage bill expenditure, improving governance, including through reforming our state-owned enterprises (SOEs), support risk-based access to financial services while strengthening our AML/CFT framework; implementing central banking reforms and promoting private investment to ease foreign exchange shortages; and crucially our 13 year program of budget repair, which envisages a return to budget surplus by 2027.

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

We have met all but one quantitative performance criteria (QPC) and all indicative targets set for end-December 2024. We request a waiver for the non-observance of the continuous QPC on new external payment arrears, which was breached in late December 2024 due to the call on a legacy government guarantee following missed payments by a joint venture, for a total amount of USD 8.5 million (0.02 percent of GDP). We have made payment for that loan on April 30, 2025, fully repaying both the payments missed by the guaranteed entity and the remaining balance of the loan to discharge it. In addition, we have adjusted the Technical Memorandum of Understanding (TMU), in consultation with staff, to clarify the existing practice for the calculation of the fiscal deficit QPC.

Out of eight structural benchmarks due under the ECF/EFF, we have fully implemented two in timely fashion, implemented two with delay, and partially implemented two with delay. We remain fully committed to the implementation of the two delayed structural benchmarks on amendments to the Internal Revenue Commission (IRC) Act regarding the oversight of the IRC and on the appointment of the Independent Commission against Corruption (ICAC)'s oversight committee; we are requesting resetting the deadlines to end-July 2025 and to end-September 2025, respectively to allow sufficient time to reach a political and administrative consensus on the final details of the reform and to finalize the selection process.

Out of two reform measures under the RSF for which the tentative target date has passed, we have implemented one on disaster risk screening procedures for new investment projects. The other reform measure will be progressed as part of the RSF program, after further considering the policy options to rebalance the excise tariffs on liquid fuels, with the support of the IMF.

We have continued our progress on budget repair; after reducing our deficit by more than half since the pandemic, we remain on track to deliver an additional consolidation effort of at least 0.8 percentage point of GDP in 2025. The recent adoption of the Income Tax Act—which represents a significant milestone in simplifying our tax system—is expected to improve compliance and provide the base for fairer and more efficient revenue mobilization over the medium term. We have been reaping the benefits from the gradual implementation of central banking reforms, with significant improvements recorded in the foreign exchange market and the mopping up of excess liquidity, while keeping inflation under control. We have continued enhancing our anti-corruption and governance framework, including by supporting the Independent Commission against Corruption (ICAC) in setting up its operations and by actively making efforts to implement critical AML/CFT reforms. And we have been working towards meeting our climate objectives and exploring options to catalyze green and inclusive finance, including from the private sector.

Overall, we remain committed to our targets and value our collaboration with the IMF. We are grateful for the IMF for the policy advice and extensive technical assistance and to 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 and AML/CFT reforms; dealing with our balance of payments imbalance; returning 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, including by assessing options for continuing reforms that broaden our tax base and continuing to improve spending efficiency; passing amendments to the Internal Revenue Commission Act to strengthen governance arrangements for revenue collection; strengthening our ability to control expenditure and to strengthen government cash management, including by devising a strategy to move to a treasury single account, for which we have requested IMF technical assistance; and improving debt management, in the lead-up to a large bullet payment in 2028. 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 by enabling its lender-of-last-resort function to enhance financial stability. We will sustain our support to the full operationalization of the ICAC, including by ensuring adequate and stable funding, and address the priority recommendations from the recent mutual evaluation report to enhance the strength and effectiveness of our AML/CFT framework. And we will continue building up the resilience of our economy to climate change by enhancing disaster risk management efforts, mainstreaming climate change into infrastructure governance practices, supporting the development of green and inclusive finance, and developing appropriate fiscal incentives for forest preservation and fuel efficiency. These reforms will be the focus of our programs, as set out in the attached Memorandum of Economic and Financial Policies (MEFP) and TMU.

We request the completion of the Fourth Reviews under the ECF and EFF arrangements and the First Review under the RSF arrangement, and the release of the related purchases and disbursements. We request the setting of the end-March 2026 indicative targets and end-June 2026 performance criteria under the ECF-EFF. We also request the modification of the continuous performance criteria on the present value of new external debt for the second half of 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 140.81 million (53.5 percent of quota), of which SDR 40.36 million (15.3 percent of quota) under the ECF, SDR 80.71 million (30.7 percent of quota) under the EFF and SDR 19.74 million (7.5 percent of quota) under the RSF. These disbursements will help address balance of payments and budget financing needs (including prospective needs arising from climate change), while smoothly achieving the next stage of our reform plan.

We are confident that our policies are adequate to achieve the objectives of the ECF-EFF and 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

Attachment I. Memorandum of Economic and Financial Policies

I. Recent Economic Developments and Outlook

1. The Papua New Guinea (PNG) economy remained resilient, supported by steady growth in the non-resource sector. The economy is estimated to have expanded by 3.8 percent in 2024—similar to the growth in 2023—supported by resilient non-resource sector growth of 4.5 percent and a moderate expansion of the resource sector by 1.7 percent. Average headline inflation declined from 2.3 percent in 2023 to 0.6 percent in 2024, mostly driven by a sharp decline in betel nut prices. Average core inflation was however broadly stable at 3.2 percent in 2024. The current account balance improved to around 16 percent of GDP, from 9.0 percent in 2023 amid a higher trade balance surplus and narrower income deficit.

2. Near-term growth is expected to strengthen, while headline inflation is set to move back in line with historic averages. Growth is expected to strengthen to 4.7 percent in 2025 as access to FX continues to improve and the production capacity in the resource sector further increases. Average headline inflation is projected to pick up to 4.8 percent in 2025 from a record low base in 2024. Core inflation, which has been a more stable price indicator, is projected to increase to 4.0 percent in 2025, consistent with improved economic activity. The current account surplus is expected to slightly moderate but remain at a high level in 2025 (11 percent of GDP), contributing to lower FX pressures. Over the medium term, the economy is projected to grow at an average of about 3 percent annually, supported by resilient non-resource sector growth.

3. We recognize that the external environment is uncertain, and 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, disruption of production, commodity price volatility, unstable supply of critical utilities, fiscal and financial consequences of cyberattacks, and high exposure to natural disasters and climate-related shocks. Political and social instability could undermine the implementation of our reform agenda and worsen our business climate. However, we remain conservative, in line with international best practice, in our current projections by excluding the potential effects of large extractive sector projects, some of which are expected to reach a final investment decision in the coming months. These projects, if implemented, will have a large positive impact on growth, investment and—in the medium term—exports and fiscal revenues.

II. Program Performance

4. Progress in implementing our structural reform agenda has continued over the past six months, in line with our commitments under the Extended Credit Facility / Extended Fund Facility (ECF/EFF) and Resilience and Sustainability (RSF) arrangements.

- **Quantitative performance criteria (QPC) and indicative targets (IT) under the ECF/EFF arrangements.** All but one QPC for end-December 2024 were met (Table 1). Fiscal consolidation continued in 2024, as fiscal deficit stood at a lower level than the QPC ceiling. The present value of newly contracted external debt also remained significantly below the continuous QPC ceiling. Net international reserves fluctuated comfortably above the QPC floor, and we continued to avoid additional monetary financing, as illustrated by our compliance with the QPC ceiling on the BPNG's gross credit to government. However, we breached the continuous QPC on the absence of new external payment arrears by a small amount of 0.02 percent of GDP (see ¶20). These arrears were repaid in full in late April 2025. All ITs for end-December 2024 were met.

- **Structural benchmarks (SB) under the ECF/EFF arrangements.** Out of eight SBs due by end-May 2025, we have met two—limiting the access to central bank bill (CBB) auctions to reserve maintaining and supervised financial institutions and the issuance of a new 28-day CBB every four weeks (¶25)—and partially implemented the payroll data cleansing exercise in the National Capital District (¶13). We also implemented two SBs with delay—the amendments to the Income Tax Act (¶10), and the adoption of a dividend policy for state holding companies (¶29). The SB on the signature of the Independent Commission Against Corruption (ICAC)'s memoranda of understanding with other anti-corruption agencies was partially implemented with delay, but alternative reforms are helping to reach the policy objective of the SB in a more effective and durable manner (¶28). We are requesting to reset the deadline for the SB on the amendments to the Internal Revenue Commission Act (¶11) to end-July 2025 to allow sufficient time to reach a political and administrative consensus on the final details of the reform. We are also requesting to reset the deadline for the SB on the appointment of the ICAC's oversight committee (¶28) to end-September 2025, to finalize the selection of the committee members.
- **Reform measures (RM) under the RSF arrangement.** Out of two RMs under the RSF arrangement for which the tentative target date has passed, we have met one—disaster risk screening procedures for new investment projects (RM4, ¶34). The other one—amendments to the Excise Tariff Act (RM9, ¶36)— has faced delays and will be implemented by a later RSF review, after further reviewing policy options with IMF support.

III. Government Economic And Financial Policies

A. Policies Under the ECF/EFF Arrangements

5. The ECF and EFF arrangements approved in March 2023 are enabling us to make progress on our reform agenda to ensure sustainable growth especially for rural areas, as outlined in our Poverty Reduction and Growth Strategy (PRGS) (¶37). The program aims to ensure that we:

- Continue to progress our program of budget repair with the aim of strengthening domestic revenue mobilization to bring the budget to a balanced position by 2027, improving the quality and composition of public expenditure, and lowering public debt to meet the requirements of our Fiscal Responsibility Act (Pillar I);
- Continue on our whole-of-government program of foreign exchange repair and proceed with our Roadmap to further modernize the governance and operations of the BPNG, address foreign exchange shortages, and reinstate the convertibility of the Kina (Pillar II); and

- Further strengthen the overall governance framework in PNG by scaling up ICAC operations, improving our AML/CFT framework consistent with the Financial Action Task Force (FATF) standards, while ensuring our financial and payments systems are able to facilitate increased efficiencies and financial deepening and inclusion, and enhancing data quality and transparency (Pillar III).

The program contributes to these objectives through a series of commitments to economic reforms, which will galvanize domestic support, and Fund TA.

Pillar 1 – Fiscal Repair

6. We remain committed to our homegrown fiscal repair strategy. The strategy, which aims at reaching a balanced budget by 2027, is supported by domestic revenue mobilization efforts, reforms to contain expenditure growth while enhancing its efficiency and reprioritizing spending towards social and infrastructure objectives, and a prudent borrowing strategy aimed at lowering the cost of borrowing. This will put public debt as a share of GDP firmly on a downward trajectory, thus helping to reduce risks.

Fiscal Developments and Outlook

7. In 2024, we have continued fiscal consolidation, in line with our medium-term budget repair strategy. The fiscal deficit reached 3.4 percent in 2024, narrowing by 0.9 percentage point (pp) relative to 2023, comfortably under the QPC ceiling. Total revenue and grants declined by 1.0 pp of GDP in 2024, primarily reflecting a drop in goods and services tax (GST) (-0.8 pp of GDP) from a very high base in 2023, and a lower-than-expected growth in non-tax revenues due to delayed implementation of the Non-tax Revenue Administration Act (NTRA) and lower-than-expected dividends from the state holding companies (Kumul Consolidated Holdings, Kumul Petroleum and Kumul Minerals). Total expenditure also declined substantially by 2.0 pp of GDP in 2024 compared to the previous year, mainly driven by cuts in goods and services (-0.7 pp of GDP), lower capital spending mainly caused by fewer donor grants (-0.6 pp of GDP), contained growth in wage bill (-0.3 pp of GDP), and lower transfers to local governments (-0.3 pp of GDP).

8. We are committed to continue fiscal consolidation in 2025. We intend to further reduce the fiscal deficit to below a ceiling of PGK3.5 billion (2.6 percent of GDP) in 2025, supported by revenue mobilization and limited growth of current expenditure.

- ***On the revenue side***, the new dividend policy for state holding companies (¶29) and the continued implementation of the NTRA to cover revenue-generating agencies are expected to yield additional non-tax revenue of about PGK1.0 billion relative to 2024. The decline in deductions related to accelerated capital depreciation will start yielding additional mining and petroleum tax (MPT) revenue in 2025 (PGK0.4 billion). We met the indicative target (IT) on non-resource tax revenues at the end-March 2025 indicative test date despite delays in the reconciliation of revenues due to the cyberattack to IRC's SIGTAS earlier this year. We request to recalibrate it to also better account for the seasonality of tax collection within the year and the moderation of GST collection in 2024 due to the exceptionally high base in 2023.

- ***On the expenditure side***, we will continue to contain current spending and reprioritize funds towards critical spending areas such as capital investment, education, health and law and order (¶12). Interest payments are expected to increase by around PGK0.5 billion due to higher domestic and global financing costs. We will actively manage our financing strategy to limit the size of the cheque float.

Going forward, we will continue to mobilize revenue in line with our Medium-Term Revenue Strategy (MTRS) and rationalize current spending while preserving priority social spending, in line with our objective of reaching a balanced budget by 2027.

9. 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 other development partners, and on continued favorable commodity prices. To strengthen our fiscal framework, we will consider introducing a public debt anchor to help bring debt to a safe level over the medium term. Our resource revenue is subject to significant volatility. In the event of revenue overperformance, we will use the additional amount to reduce the deficit, accelerate the clearance of the stock of domestic payment arrears, and increase priority spending. If revenue significantly underperforms, we will undertake additional expenditure adjustments to meet our fiscal deficit target. In this regard, 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.

Revenue Mobilization

10. We intend to accelerate the implementation of reform measures under the MTRS to increase revenue mobilization and compliance. 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. This includes reforms to broaden the tax base by reducing distortions and addressing the policies that hinder the effectiveness and efficiency of tax compliance and services. Following broad consultation with key stakeholders and extensive IMF technical assistance, the adoption of amendments to the Income Tax Act (ITA) in March 2025, one of the key reforms in the MTRS, represents a major milestone in simplifying and modernizing our tax system (SB implemented with delay). It is now poised to enter into effect in early 2026 and is expected to improve our business environment and improve tax administration over time through enhanced compliance. To identify future reform options for broadening the corporate income tax (CIT) base and reducing inefficient or overly costly tax expenditures, we will conduct—with the support of IMF technical assistance—an in-depth analysis of CIT tax expenditures, incentives and gaps which will include (i) the listing of existing tax expenditures and incentives; (ii) their estimated costing; and (iii) an assessment (at least qualitative) to what extent they are effectively meeting their desired policy objectives (**proposed new SB due by end-March 2026**). In addition, we will assess the potential impact of incentives that could be granted under the Special Economic Zones (SEZ) Authority Act, as well as the estimated foregone CIT revenue from the informal economy. Additional measures include: (1) Quantifying total tax debt and categorizing it into collectable and non-collectable and implement targeted compliance and enforcement strategies to reduce collectable tax debt; and (2) Migrating small and medium enterprises from the informal (black) economy into the formal system.

11. Continued modernization of the Internal Revenue Commission (IRC) and Customs' operations will contribute to enhancing tax and customs revenue administration. Our efforts will focus on strengthening compliance, enforcement, institutional capacity, and accountability, in line with the findings of the IMF's recent Tax Administration Diagnostic Assessment Tool (TADAT). To address identified shortcomings, the IRC is committed to developing a well-sequenced reform roadmap, supported by additional IMF technical assistance; this exercise will guide future tax administration reform commitments. The adoption by Parliament of amendments to the IRC Act to establish an oversight board will help align IRC's governance with international best practice. While we have made significant progress on the draft amendments, we request additional time to build political and administrative consensus on the final details of the reform ahead of submission to Parliament **(SB with proposed reset deadline to end-July 2025)**. Finally, having secured NEC approval for the supplier of the Integrated Tax Accounting System (ITAS) and GST Monitoring Systems, we anticipate procurement and installation of these systems in short order. The PNG Customs Services are undertaking a review of the Customs Act 1956, to enhance enforcement and strengthen compliance, including by updating the penalties regime; the aim is to submit amendments to Parliament by the end of the year. The PNG Customs Services are also readying the implementation of a Single Window to streamline customs declaration processes and enhance risk management.

Expenditure Efficiency

12. Consistent with our budget repair strategy, we are committed to reduce the overall spending envelope as percent of GDP. In 2024, our total expenditure and net lending was 20.4 percent of GDP which is 1.8 percent lower than the 2023 expenditure outcome. We have successfully contained spending by targeting critical operational expenditures in the social sectors including health, education, law and order and utilities while restraining spending in travel and other discretionary costs as needed. We also made progress in properly assessing and containing the payroll costs of national departments and will continue to process retirements to reduce the payroll cost. We also continued to redirect our expenditure towards priority social spending, including education, health, and law and order sectors, well above the program target (IT), consistent with the objectives of our PRGS (¶37). In the 2025 Budget and beyond, we are intent on continuing rationalizing current spending, preserving priority social spending and reprioritizing capital expenditure to support and sustain inclusive and resilient growth. Thanks to the forthcoming IMF's Public Investment Management Assessment (PIMA), we will identify key reform priorities to enhance the efficiency of our capital spending and increase our infrastructure outcomes.

13. We are continuing to enhance the management and efficiency of payroll expenditure and strengthening human resource (HR) compliance. The Department of Personnel Management (DPM) completed most of the payroll data cleansing exercise in the National Capital District (NCD) (SB partially implemented). We are determined to bring it to full completion, as well as continue or initiate similar exercises in sectors other than the economic and administrative sectors (including teachers) and other provinces. In the future, we will also cleanse allowance, leave and positional data and implement further payroll controls to maintain payroll integrity.

14. We remain committed to actively verifying and clearing Government domestic arrears accumulated in previous years. The Arrears Verification (AV) program established in January 2020 allows us to gradually clear the stock of domestic arrears on goods and services. Since its creation, and as of March 2025, the AV Committee has received submissions of claims amounting to PGK6.48 billion, out of which PGK4.123 billion have been successfully verified and PGK1.649 billion were already paid. We also remain committed to increasing our budget allocation to the AV program in future, with PGK300 million appropriated in the 2025 budget. 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 PGK169.7 million at end-March 2025, down from PGK284.9 million at end-September 2024.

15. We are also committed to preventing new domestic arrears through enhanced commitment controls and improved IT functionality. As of end-December 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, with Fund TA support. Meanwhile, we are continuing to make headway in our plan to modernize our IT system through a three-stage strategy to enable more automated, timely and effective monitoring of budget execution: moving the Integrated Financial Management System (IFMS) to the cloud (Phase 1, expected by end-May 2025), upgrading to a new version of the software for the IFMS, (Phase 2), and studying finance solution requirements for a broader reform of the government financial IT systems (Phase 3).

16. We are continuing efforts to modernize our cash management practices, including by reducing our reliance on trust accounts and by developing a Treasury Single Account (TSA). While significantly reduced, consolidated balances of trust accounts remain sizable at end-December 2024 (PGK0.6 billion). To further reduce government deposits sitting outside of the central bank and enhance government cash management practices, we are making headway in formulating a sequenced implementation plan for a TSA with IMF's TA support (ongoing SB due by end-December 2025). More specifically, we are carrying out: (i) the National Banking Review to identify redundant or underutilized government bank accounts, consolidate funds, where feasible, to enhance cash pooling and improve electronic fund management; and (ii) the National Trust Review to identify trust accounts suitable for integration into the TSA framework and strengthen trust account oversight.

Prudent Borrowing Strategy

17. We will continue to maintain a prudent financing strategy to reduce costs and lower risks. Amid a larger interest bill resulting from higher yields, which was accounted for in the 2025 budget, we reiterate our commitment to substitute 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 (PV) limit on new public external debt contracted for December 2024 (continuous QPC of US$1,425 million) by an ample margin, as fewer than planned external loans or sovereign guarantees were contracted last year (totaling US$592 million in PV terms). Some of the unsigned loans in 2024—including external project and budget support loans and guarantees issued on behalf of our national airline—will be signed in 2025. Hence, we request a modification of the approved PV limit (QPC) on new public external debt ceiling for end-December 2025 test dates to US$1.66 billion, guided by the DSA. More generally, we will continue to ensure that our borrowing plan is closely linked to the financing needed to execute our budget, following a transparent borrowing program and limiting the excessive use of cheque floats.

18. We are making progress in strengthening our debt management capacity. To enhance operational efficiency and data accuracy, we are working on the creation of 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 (ongoing SB by end-September 2025). To improve the transparency of auctions and the predictability of issuances of government securities for market players, with the support of IMF technical advice, we will modify the memorandum of understanding between the BPNG and the Treasury relating to T-bill and T-bond issuances and add a requirement for (i) the publication of the budget year's T-bill and T-bond auction calendar shortly after the parliamentary approval of the budget, then to be updated on a quarterly frequency, and (ii) the publication of auction results according to a template to be designed with IMF support (**proposed SB for end-September 2025**). We will publish the historical auction results on the BPNG's website, covering at least the period since end-2022. The first annual Debt Bulletin, containing debt statistics as of the close of 2023, is expected to be published by end of June 2025.

19. Our future borrowing programs will continue to be guided by the Debt Sustainability Analyses undertaken by the IMF and the World Bank, and our recently published Medium-Term Debt Strategy (Debt Strategy). The Debt Strategy outlines a roadmap for sustainable debt management to support the PNG's economic growth, emphasizing responsible borrowing practices, balancing cost and risk, and maintaining a manageable debt burden. These objectives will be achieved by diversifying financing sources, optimizing external and domestic borrowing, implementing annual borrowing plans, and enhancing debt management capabilities. We continue to prepare for the redemption plan for the US$500 million Sovereign Bond maturing in 2028, and have requested additional IMF TA to enhance our debt management capabilities. In addition, the Borrowing Committee, comprising the Department of Treasury and BPNG, has commenced technical meetings to analyze options including Debt Swaps, funding by international partners, and devising an action plan to accumulate needed financial resources.

20. We have cleared external arrears that resulted from a sovereign guarantee to a joint venture. Following a nonpayment of a legacy publicly guaranteed loan taken by a public-private joint venture, the continuous QPC of non-accumulation of new external debt payment arrears was breached by a small amount (0.02 percent of GDP). The balance of the loan was fully cleared on April 30, 2025. We are also in the process of clarifying whether the government is liable for a separate claim by an official creditor, which originated from a 2016 state guarantee that was granted to a loan to Central Dairies, and have requested the legal opinion of our Office of the State Solicitor on this matter. The 2021 State Guarantee Policy introduced strict procedural and legal controls, requiring Ministerial approval based on formal advice from the Department of Treasury, mandatory Head of State approval for the loan purpose, detailed financial, legal, and risk assessments, public reporting to Parliament, continuous monitoring of guarantees, and strict conditions on documentation, fees, and legal compliance. The Treasury is currently checking the comprehensiveness of its records on legacy guarantees and, going forward, will ensure more regular monitoring of the timeliness of payments by guarantee beneficiaries. These measures reduce the risk of similar arrears recurring and support our commitment to the non-accumulation of new external payment arrears.

Pillar 2 - Monetary and Exchange Rate Reforms

21. We continue to implement our roadmap for monetary policy and exchange rate reform. Achieving and maintaining price stability, the primary objective of the central bank as set out in the amended Central Banking Act (CBA), is at the heart of our monetary policy framework. Returning to kina convertibility and an appropriate exchange price for PNG's exports and imports is fundamental to 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. We have also made significant headway in enhancing the governance of the central bank, including with the recent creation of the Monetary Policy Committee (MPC). 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, and to update where necessary in consultation with the relevant agencies.

22. We remain committed to the implementation of the crawl-like exchange rate arrangement to help restore kina convertibility by the end of the program. After a brief suspension of the arrangement due to delays in its appointment, the MPC confirmed a revised annual rate of crawl of 6 percent for 2025, consistent with the framework approved in December 2023. Thanks to the crawl against the USD, since January 2024, the USD/PGK exchange rate has gradually depreciated by 8 percent (as of end-March 2025). The real overvaluation of the kina has however not been fully addressed yet as the USD appreciated against the currencies of our major trading partners. To bring the Kina to its equilibrium, further adjustment in the exchange rate is thus still required. Consideration will be given to the use of a basket of currencies as the anchor currency in the current crawl-like arrangement to facilitate a more effective adjustment, although such change would require additional capacity development support. The crawl-like arrangement is seen as transitional, helping us move towards more exchange rate flexibility and convertibility in a measured manner alongside other efforts to attract foreign investment and to improve the business environment. Taken together, these are expected to enhance the competitiveness of our exports, including in the agricultural sector, and thus boost FX inflows, increase rural incomes and improve living standards.

23. 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. We have also been implementing a multiple-price FX auction mechanism since June 2024, paving the way for a more competitive interbank market and to better match with the distribution of essential FX orders; and we have also started intervening on a weekly basis to help reduce waiting times for access to FX. Our interventions have helped to address essential orders and the aging of import orders; the total stock of import orders older than two months was significantly brought down (IT), highlighting improvements in the timing of access to FX, supported by good FX inflows especially from the mineral sector. Relative to our monthly intervention target of US$125 million, there has been an average unused intervention budget of US$38 million over the first quarter of 2025, indicating some room for extending the intervention budget to non-essential orders, such as dividends. Yet, to avoid unintended outflows, the BPNG will continue to enforce the current priority list requiring that authorized foreign exchange dealers use all FX flows to clear essential orders first while allowing the remaining FX intervention budget to be used on certain non-essential current account orders.

24. Through its future monetary policy decisions, the central bank will continue implementing its price stability mandate, helping to keep inflation under control and ensuring consistency with the exchange rate arrangement. In March 2025, the MPC maintained the Kina Facility Rate (KFR) at 4.0 percent, unchanged since September 2024 and lowered the cash reserve requirement ratio (CRR) from 12 to 11 percent, as a response to tighter liquidity across the banking system. The MPC will continue to closely monitor liquidity conditions and adjust the central bank's policy toolkit accordingly.

25. We will continue to further enhance liquidity management and improve monetary transmission, with the support of continued IMF technical assistance. Recent reforms under the roadmap—fixed rate full allotment (FRFA) auction, mid-rate corridor bounded by standing overnight repo and reverse repo facilities, partial reserve averaging—have helped to improve liquidity management. We have ensured that financial institutions which are not subject to reserve requirements no longer have access to the CBB auctions (SB met). To complement the main 7-day CBB instrument, we have commenced issuance of the 28-day CBB to reserve-maintaining and supervised financial institutions, once every four weeks, in competitive auctions, with BPNG as price taker (SB met). To enhance these new instruments, we will (i) further clarify with the banks how to calculate reserve averaging to encourage its use; (ii) revise the calendar of the reserve maintenance period so that it better aligns with the calendars for the 7-day CBB issuances and monetary policy decisions; and (iii) avoid irregular closing times for the repo and reverse repo facilities. We are currently developing a liquidity forecasting framework and liquidity monitoring tables, allowing to prepare weekly forecasts for the Monetary Operations Committee, with the support of IMF technical assistance (ongoing SB by end-July 2025). To support the emergence of an interbank market and help ease the uneven distribution of liquidity across banks, we will align the draft interbank Master Repo Agreement with the Global Master Repurchase Agreement standard to ensure enforceability and intend to share it with commercial banks with a formal letter explaining the benefits of adopting it (**proposed SB by end-December 2025**).

26. We are committed to the effective implementation of the recently amended CBA to reinforce the mandate, governance, autonomy, transparency and accountability of the BPNG. We continue to make progress in operationalizing these amendments. All Monetary Policy Committee (MPC) members have been appointed, and the first MPC meeting was held on March 11, 2025. We also 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 published. We intend to restore timeliness of publication going forward.

27. We continue to make progress in strengthening the policy framework for financial stability. The Financial Sector Development Strategy 2018−30 outlines priorities for building a resilient and inclusive financial sector in PNG, focusing on areas including financial sector regulation and supervision, capital market development and payment system development, while balancing on financial inclusion. We will continue to enhance competition in the banking sector by prudently issuing more new banking licenses and ensuring the compliance of the new banks with financial sector regulations in a timely manner. The recent IMF Financial Sector Stability Review (FSSR) diagnostic 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. With technical assistance from the IMF, we are working to operationalize the emergency liquidity assistance (ELA) framework, consistent with lender of last resort regime introduced under the amended CBA in 2024; we will develop and issue ELA guidelines, pursuant to Section 76 of the CBA (**proposed SB by end-December 2025**).

Pillar 3 – Governance, Anti-Corruption and AML/CFT Reforms

28. The ICAC continues towards full operationalization, with the aim to deliver an effective anti-corruption framework supporting inclusive economic growth. The ICAC has effectively started investigating cases, leading to a first arrest in March 2025. Thanks to increased budget funding, ICAC quadrupled its staffing since July 2023 (75 staff, against 18), established new premises, developed its guidelines and manuals, upgraded its IT system towards more secure solutions, built forensic capabilities and enhanced its engagement and prevention programs. We will disburse ICAC's budget allocation for 2025 (PGK52 million in the 2025 Budget) without delay, and remain committed to sustaining an appropriate level of funding for ICAC going forward, so that it can continue carrying out its mandate. Although the advertisement and interview processes for the appointment of the

ICAC oversight committee have faced delays, we remain committed to finalize the selection process and bring the ICAC in line with best international practice; we hence request to reset the deadline of the SB from end-March 2025 to end-September 2025. The bilateral memorandum of understanding (MoU) between the ICAC and the BPNG's Financial Analysis and Supervision Unit (FASU) has been signed, but not yet those with the Police, the Ombudsman's Office, the Auditor General's Office (AGO) or the Public Prosecutor's Office (SB partially implemented with delay). However, the recent establishment of the Anti-Money Laundering Joint Task Force (AMLJTF) and the Asset Recovery Money Laundering Operations Committee (ARMLOC), both of which the ICAC and most above-listed agencies are already members, effectively contributes to the same objectives of enhancing cooperation between relevant anti-corruption bodies. The ICAC has also started working on a successor to the National Anti-Corruption Plan of Action 2020-2025.

29. We aim to enhance clarity on the financial relationships between the government and our state-owned enterprises and state holding entities. To improve the transparency and predictability of dividends paid to support the budget, the National Executive Council has approved in April 2025 a dividend policy for all state holding entities (Kumul Consolidated Holdings, Kumul Petroleum and Kumul Minerals), clarifying principles and rules for the calculation and distribution of annual dividend payments (SB implemented with delay). We intend to continue improving the reliability and quality of financial information for the state holding entities and SOEs, as well as the timeliness and publication of audited financial statements and annual reports for the state holding entities. We also are committed—including with the continued support of ADB to gradually improving the operational and financial sustainability of these holding entities and 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 and implemented. We are also exploring options to privatize some of our SOEs.

30. Strengthening the effectiveness of our AML/CFT framework is critical to ensure and preserve the integrity of the financial sector and broader economy from financial crimes. The recent mutual evaluation report (MER) by Asia/Pacific Group (APG) on Money Laundering identified critical shortcomings in our AML/CFT framework and its effective implementation. The National Coordinating Committee (NCC), co-chaired by the BPNG and the Department of Justice and Attorney General, endorsed a strategic implementation plan to help address the priority actions highlighted in the MER. The Financial Analysis and Supervision Unit (FASU) continues to actively monitor progress in implementation and engage with the APG. PNG has the third largest rainforest in the world, with a significant forestry exporting sector. PNG's 2017 National Risk Assessment highlighted that over 40 private ports for export exist with a general value of illegal logging in PNG estimated between 70-90 percent of the total forestry products exported. PNG's recent MER notes that corruption and significant involvement of foreign companies operating around regulatory standards makes this sector extremely vulnerable to money laundering and other predicate offences occurring in private ports and logging camps such as smuggling and human trafficking – including links with organized crime groups. Illegal logging meets the threshold for a predicate offence of money laundering and is subject to confiscation of proceeds and assets; however, in practice, this crime type is predominantly dealt with as a regulatory matter. PNG has undertaken a forestry risk assessment, prepared with the support of UNODC, but this has not been published. With ADB support, a public version is being prepared removing confidential information. We will publish this forestry sectoral risk assessment, including clear guidance and recommendations on improving the forestry sector's compliance with PNG's AML/CFT requirements (**proposed SB by end-December 2025**). In addition, to reinforce the understanding of ML/TF risks and fundamental AML/CFT obligations, we will complement existing technical guidance for financial institutions and designated non-financial businesses and professions (DNFBPs) by including greater guidance on treatment of low-risk customers in accordance with the latest FATF guidelines, and guidance for non-bank financial institutions, lawyers, accountants, real-estate agents and precious metal dealers (**proposed SB by end-December 2025**). This new sector-specific guidance, which will be developed with the support of Australia and in consultation with Fund staff, will at least cover risk assessment, obligations on politically exposed persons and reporting of suspicious transactions, as required under PNG's legislation. We will also conduct a holistic review across agencies of the deficiencies concerning market entry and fit and proper tests for financial institutions and DNFBPs to ensure criminals do not own or control those businesses. Lastly, we will work to address critical technical compliance gaps in our legal framework highlighted in the MER, particularly regarding the criminalization of money laundering and terrorist financing, and the reporting of suspicious transactions.

31. To enhance data quality and transparency, we need to address critical gaps in our national accounts and external sector statistics. We are actively seeking resources to conduct a national household income and expenditure survey as soon as possible, which is needed to rebase the consumption basket and improve national accounts data; we will also request additional IMF technical assistance to support that process. To resolve the inconsistency between national accounts data and external sector statistics (ESS), we will swiftly conduct a reconciliation exercise of data on exports and imports of goods. Continued TA support on ESS will also help us produce international investment position (IIP) statistics in 2025. This TA complements our efforts through the inter-agency working group on ESS (started in June 2024)—comprising representatives from the NSO, Treasury Department, PNG Customs Service and the BPNG—which continues to meet to support the production of ESS.

B. Government Policies Under the Proposed RSF Arrangement

32. The RSF arrangement is helping us build policy buffers and supporting the implementation of our climate-related reform agenda, to enhance our resilience to climate change. Our key climate commitments, as set out in our enhanced Nationally Determined Contribution, our National Adaptation Plan and our PRGS, include building resilience in key sectors such as agriculture, water, and infrastructure, and taking action to reduce forest degradation and deforestation and increase the share of renewables in our energy mix. This involves working in collaboration with our key stakeholders such as the Climate Change and Development Authority (CCDA), the Conservation and Environment Protection Authority (CEPA), the National Disaster Center, PNG Forest Authority, the Departments of Lands and Physical Planning, Transport, Works & Highways to ensure harmonized development and implementation of sector reforms. The RSF arrangement aims to support these objectives, with the following fourfold focus: (i) enhancing disaster risk management efforts; (ii) integrating climate change considerations into public investment management processes; (iii) supporting the development of green and inclusive finance; and (iv) incentivizing low-carbon-growth activities. To that end, we have committed to a set of specific RMs to be implemented over the duration of the program, with capacity development support by the IMF and other development partners.

33. Given our high exposure to climate-related natural disasters, strengthening our disaster risk management (DRM) framework is critical to preserve lives and livelihoods and improve our responsiveness and resilience. With UNDP support, we have started developing a new public portal which will make existing climate hazard mapping data available to the general public and include an online disaster reporting system to collect data on future events (RM1 targeted by September 2025); and we have established a technical working group to review the 1984 Disaster Management Act with the aim of modernizing the DRM legal framework by submitting amendments to the Act to Parliament (RM2 targeted by March 2026). We will also receive capacity development support from the IMF later this calendar year to prepare a disaster risk financing strategy (RM3 targeted by September 2026).

34. Integrating climate change considerations into our public investment management (PIM) practices will reinforce the resilience and durability of our infrastructure. With the IMF support, we are introducing a new requirement, as part of the 2026 Budget preparation process, for departments and agencies to screen new investment projects according to their exposure to climate-related disaster risk, based on an agreed methodology and new project identification template (RM4 met); we have received additional IMF support to provide some training to departments and agencies subject to the new requirement. We have initiated work to draft PIM regulations, with the aim to integrate climate considerations into the project cycle (RM5 targeted by March 2026); this work will benefit from the upcoming IMF's PIMA. The Department of Works and Highways is working to integrate climate change in its maintenance standards and costing methodologies applied to national roads, with World Bank and Asian Development Bank (ADB) support (RM6 targeted by March 2026).

35. To enable the scaling-up of climate finance, we are committed to continue strengthening the climate information architecture. To help operationalize our Green and Inclusive Taxonomy, the BPNG's Green Finance Center (GFC) is currently receiving technical assistance from the ADB, the Agence Française de Développement and the International Finance Corporation to develop technical screening criteria in the renewable energy, energy efficiency, and clean transportation sectors, with a 2025 target. We will take a phased-in approach to complete all the deliverables associated with RM7, including using a phased-in approach to provide capacity development to banks and BPNG staff in 2025. On that basis, we will develop and formalize supervisory guidelines for banks on mandatory regulatory reporting of their exposures in the above three sectors, along with implementation timelines (RM7 targeted by March 2026). Furthermore, we have started developing a national climate project database; we are also currently drafting the memorandum of understanding between the BPNG and the Treasury which will empower the Green Finance Center with the authority to collect information and populate the database (RM8 targeted by

September 2026). At the climate finance roundtable co-convened by the authorities, the IMF, the World Bank, and the ADB in March 2025, we have agreed to explore a set of innovative options to help scale up private and public sector finance for climate action. These include: developing a project preparation facility along with empowering the newly established Climate Finance Unit, a guarantee and refinancing facility, and a renewable energy platform; operationalizing the PNG biodiversity and climate fund; providing technical assistance on forestry and carbon markets; and exploring the potential for a debt-for-nature swap. The outcome from this roundtable and initial commitments from partners will be communicated to the public through a joint press release by the COP30.

36. We remain committed to incentivize low carbon-growth activities while preserving the livelihoods for our most vulnerable citizens. Based on IMF advice and capacity development, we are assessing different options to revise fuel excise rates and shift the tax burden towards fuels with higher carbon content, while not increasing taxes for lower-income and vulnerable households, with the aim to implement this reform in the second or third RSF reviews (RM9 targeted by March 2025, delayed). We have initiated the review of existing royalties, taxes, and levies in the logging sector, with the support of the ADB, to help identify appropriate tax policy measures to ensure a balance between forest preservation and socio-economic considerations (RM10 targeted by September 2025).

C. Structural Policies and Poverty Reduction

37. Our structural reform agenda, guided by our PRGS, the Medium-Term Development Plan IV (MTDP IV 2023-2027), is geared towards preserving macroeconomic stability, fostering inclusive and sustainable growth and addressing our development and climate change needs. Poverty remains high, with most of our people living in rural areas, with limited access to basic infrastructure and services, and high exposure and vulnerability to the consequences of climate change. We urgently need to invest in basic infrastructure, particularly power, utilities, and transport links, in the provision of critical social services such as education, health care, and security, and in improving resilience in all these sectors. 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, improved rural service delivery, addressed urban youth unemployment with the launch of targeted initiatives, and expanded labor mobility programs. The MTDP IV 2023-2027 outlines the government’s 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. In this regard, the Government has continued to provide significant funding to the Connect PNG program of road building, with PGK690 million going directly to PNG Connect corridors in the 2025 Budget, and more to other ancillary roads and connections.

38. To meet our development and climate challenges, continued reforms are needed to reduce our financing constraints. Our 13-year budget repair plan, which aims to reduce fiscal deficits and put public debt on a downward path while redirecting resources towards critical social and infrastructure priorities, is critical in that respect. Our central banking and governance reforms are expected to contribute to improving the business environment, attracting foreign investment and improving PNG's competitiveness, leading to higher economic growth and yielding fiscal revenue increases. We also expect that the successful implementation of climate reforms supported by the RSF arrangement will help catalyze financing for climate action from bilateral and multilateral donors as well as from the private sector.

IV. Financing Strategy and Program Monitoring

Financing Strategy

39. The ECF/EFF arrangements continue to help us address immediate balance of payments needs, enabling the engagement with other development partners and the accumulation of durable 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, sustainable and inclusive growth and allow us to reduce poverty. Further, the arrangements are an important signal to our development partners that PNG is committed to sustain macro-financial stability, as shown by the recent decision by some development partners to start new lending operations with our country. More directly, Fund financing allow us to address near-term balance of payments needs, allowing the Government to build and maintain the international reserve buffer needed to 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 carefully paced fiscal consolidation path that preserves needed social spending. Meanwhile, the recently approved RSF will help us address prospective balance of payment needs arising from climate change.

40. We are targeting an international gross reserves level of US$3.6 billion (4.4 months of imports) by end-2026. Our net international reserves (NIR), that is reserves net of IMF financing outstanding, closed 2024 at US$3.2 billion as per the TMU definition, about US$1.1 billion above the QPC target floor. This level of reserves considers the continued reduction of the backlog of FX orders, external payment obligations and the disbursements of budget support loans at the close of the year. We estimate our external financing needs for the year to be US$573 million, of which 56 percent will come from disbursements under the Fund ECF/EFF arrangements, which will continue to be channeled toward budget support.

Program Monitoring

41. 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 fifth, sixth and seventh reviews of the ECF/EFF arrangements will take place on or after September 18, 2025, March 18, 2026, and September 18, 2026. Accordingly, our next three test dates will be June 30, 2025, December 31, 2025 and June 30, 2026 respectively. Further, we include additional indicative targets for the interim periods (assessment dates of September 30, 2025 and March 31, 2026) to help guide program implementation. Reviews under the RSF arrangement will take place concurrently with the reviews under the ECF/EFF arrangements. The second, third and fourth reviews of the RSF arrangement will hence take place at the time of the fifth, sixth and seventh reviews of the ECF/EFF arrangements, respectively. Tables 1 and 2 outline our proposed QPCs, ITs and SBs for the next 12 months; while Table 3 provides the matrix of RMs to be implemented over the duration of the RSF arrangement. Detailed definitions of the QPCs and ITs are provided in the attached Technical Memorandum of Understanding. Both ECF/EFF and RSF disbursements are used as budget support; memoranda of understanding between the Treasury and the BPNG have been signed to that effect.

42. 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, including by remaining in close and frequent contact with the IMF Resident Representative on both program and other issues, such as the organization and sequencing of capacity development activities. 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.

Table 1. Papua New Guinea: Quantitative Performance Criteria and Indicative Targets, December 2024 – June 2026

(In millions of Kina unless otherwise specified)

	2024			2025									2026	
	December			**March**			**June**		**September**		**December**		**March**	**June**
	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)	4,810	**4,138**	met	1,159	**349**	met	2,203		3,020		3,516		**629**	**1,195**
Stock of net international reserves of the BPNG (floor, US$ millions)	2,050	**3,183**	met	1,988	**2,723**	met	1,925		1,863		1,800		**1,850**	**1,900**
BPNG's gross credit to government (ceiling)	2,400	**2,128**	met	2,400	**2,062**	met	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	**8.5**	not met	0	**8.5**	not met	0		0		0		**0**	**0**
Present value of new external debt contracted or guaranteed by the government (ceiling, US$ millions) 3/	1,425	**592**	met	810	**0**	met	810		810	**1,660**	810	**1,660**	**500**	**500**
C. Indicative Targets														
Non-resource tax revenue of the government (floor, cumulative from the beginning of the year)	14,677	**14,740**	met	3,268	**3,350**	met	6,537	**6,114**	12,173	**11,387**	16,676	**15,598**	**3,426**	**6,681**
New domestic payment arrears of the government (ceiling)	0	**0**	met	0	**0**	met	0		0		0		**0**	**0**
Social and other priority spending (floor, cumulative from the beginning of the year) 4/	4,059	**8,439**	met	550	**1,458**	met	1,650		4,008		5,500		**600**	**1,800**
Stock of unmet import-related FX payments in the orderbook (ceiling)	75	**40**	met	50	**0**	met	25		0		0		**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, 2025 and 2026.

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

Table 2. Papua New Guinea: Structural Benchmarks (June 2025—June 2026)			
No.	**Measure**	**Purpose/Macro-criticality**	**Implementation date**
	Budget repair		
1.	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-July 2025
2.	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
3.	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
4.	Carry out an in-depth analysis of tax expenditures, incentives and gaps currently affecting (or susceptible to affect) the corporate income tax base, which will include (i) the listing of existing tax expenditures and incentives; (ii) their estimated costing; and (iii) an assessment (at least qualitative) to what extent they are effectively meeting their desired policy objectives.	To broaden the corporate income tax base and increase the efficiency of tax expenditures and incentives.	End-March 2026
5.	Modify the existing memorandum of understanding between the BPNG and the Treasury relating to T-bill and T-bond issuances and insert requirements for (i) the publication of the budget year's T-bill and T-bond auction calendar shortly after the parliamentary approval of the Budget, then to be updated on a quarterly frequency, and (ii) the publication of auction results according to a template to be designed with IMF support.	To improve the transparency of auctions and the predictability of issuances of government securities for market players.	End-September 2025
	Governance and operations of the BPNG		
6.	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
7.	Develop and issue guidelines on emergency liquidity assistance (ELA), pursuant to section 76 of the Central Banking Act.	To operationalize the ELA framework and strengthen financial stability through a robust lender of last resort regime.	End-December 2025
8.	Align the draft interbank Master Repo Agreement (MRA) with the Global Master Repurchase Agreement (GMRA) standard and share it with commercial banks as an attachment to a formal letter explaining the benefits of adopting it.	To facilitate the development of a stable and efficient interbank market.	End-December 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-September 2025
10.	Publish the forestry sectoral risk assessment, including clear guidance and recommendations on improving the forestry sector's compliance with PNG's AML/CFT requirements.	To improve the forestry sector's compliance with PNG's AML/CFT requirements.	End-December 2025
11.	Update "Guidance for Financial Institutions on their Obligations under the Anti-Money Laundering and Counter Terrorist Financing Act 2015 (No. 1 of 2019)" and "Guidance for Designated Non-Financial Businesses or Professions on their Obligations under the Anti-Money Laundering and Counter Terrorist Financing Act 2015 (No. 2 of 2019)" in consultation with Fund staff to include greater guidance on treatment of low-risk customers in accordance with the latest FATF guidelines, and sector-specific guidance for i) non-bank financial institutions, ii) lawyers, iii) accountants, iv) real-estate agents and v) precious metal dealers, which should include but not be limited to further guidance on risk assessment, obligations on politically exposed persons and reporting of suspicious transactions.	To improve understanding of ML/TF risks and fundamental AML/CFT obligations.	End-December 2025

Table 3. Papua New Guinea: 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: Met (completed in May 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: 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 at RSF approval. 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 (see MEFP at RSF approval). [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, incentivizing fuel imports and consumption.	**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: Delayed
	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 Fourth Review and until June 2026. 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 Fifth Review will assess the end-June 2025 test date, the Sixth Review will assess the end-December 2025 test date and the Seventh Review will assess the end-June 2026 test date. Indicative assessment dates have also been set at end-September 2025, end-March 2026 and end-September 2026. 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 National Executive Council. 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 modified cash basis 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 of the budgetary central government—which shall consist of the net change in the balances of Treasury accounts at the BPNG and the net change in government check and transfer float balances—plus the net change in external financial assets of the budgetary central government.

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

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

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

10. **For the purpose of program performance assessment,** the cumulative fiscal deficits at end-June 2025, end-December 2025 and end-June 2026 (PCs) and end-September 2025 and end-March 2026 (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.
- **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).

14. For the purpose of program performance assessment, the stock of net international reserves at end-June 2025, end-December 2025 and end-June 2026 must be equal or greater than specified in Table 1 of the MEFP.

15. 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. 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)

	2025		
	June	September	December
Expected disbursements of program loans and grants by multilaterals and bilateral partners 1/	0	0	250

1/ Cumulative from January 1, 2025.

Ceiling on BPNG's Gross Credit to Government

16. 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.

17. For the purpose of program performance assessment, BPNG's gross credit to government at end-June 2025, end-December 2025 and end-June 2026 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

18. 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.

19. 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.

20. 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 the cumulative amount of debt contracted or guaranteed from January 1st of each year 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 for 2025 is: USD810 million from the date of the completion of the Fourth Review until June 30, 2025; and USD1,660 million from July 1 until December 31, 2025. Subject to the adjustor in paragraph 22 below, the ceiling for 2026 is USD500 million from January 1, 2026 onwards.

21. 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.

22. For program purposes, a debt is considered to be contracted when all conditions for its entry into effect have been met, including approval by the National Executive Council. 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.

23. 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

24. 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). The aforementioned definition shall exclude the outstanding claim of USD2.6 million in relation to a guarantee issued on May 20, 2016 by the authorities in favor of Bank Leumi Le-Israel B.M., the validity of which the authorities are currently disputing. For the avoidance of doubt, the aforementioned outstanding claim will constitute "external payment arrears of the government" when the authorities cease to dispute its validity and the claim is unpaid when due in accordance with the aforementioned definition.

Other Assessment Criteria

25. 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 payment 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.

Assessment Criteria: Indicative Targets

26. Indicative targets have been set for the test dates (end-June 2025, end-December 2025 and end-June 2026). Indicative targets serve to assess progress under the program but are not binding quantitative criteria under which performance under the program is evaluated. The targets are specified in Table 1 of the MEFP. Targets have also been set at the indicative assessment dates (end-September 2025 and end-March 2026). For the calculation, monitoring and evaluation of the indicative targets, the following definitions will be used.

Definitions and Calculations

27. 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.

28. 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.

29. 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.

30. 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).

Program Monitoring and Data Reporting

31. 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.

32. 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
Stock of (i) cheque float and (ii) transfer float at end-month for the budgetary central government.	Cash	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

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

Data Description	Type of Data	Reporting Agency	Reporting Frequency	Reporting Lag
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 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

Table 3. Papua New Guinea: Data Reporting for Program Monitoring (continued)				
Data Description	**Type of Data**	**Reporting Agency**	**Reporting Frequency**	**Reporting Lag**
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 US dollars, by creditor, and originating currency.	External debt	Treasury	Monthly	1 month
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

Table 3. Papua New Guinea: Data Reporting for Program Monitoring (concluded)				
Data Description	**Type of Data**	**Reporting Agency**	**Reporting Frequency**	**Reporting Lag**
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
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

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION, FOURTH REVIEWS UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND THE ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, REQUESTS FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, MODIFICATION OF A QUANTITATIVE PERFORMANCE CRITERION, AND FIRST REVIEW UNDER THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—INFORMATIONAL ANNEX

May 28, 2025

Prepared By	Asia and Pacific Department (in consultation with other departments)

CONTENTS

FUND RELATIONS

(As of April 30, 2025)

Membership Status

Joined: October 9, 1975; Article VIII

General Resources Account

	SDR Million	Percent Quota
Quota	263.20	100.00
Fund holdings of currency	476.75	181.13
Reserve tranche position	0.58	0.22

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	377.76	100.00
Holdings	5.26	1.39

Outstanding Purchases and Loans

	SDR Million	Percent Quota
Extended Arrangements	214.08	81.34
RCF Loans	263.20	100.00
ECF Arrangements	107.04	40.67

Latest Financial Commitments

Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
RSF	Dec 11, 2024	Dec 21, 2026	197.40	0.00
EFF	Mar 22, 2023	Dec 21, 2026	456.21	214.08
ECF	Mar 22, 2023	Dec 21, 2026	228.11	107.04

Outright Loans

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
RCF	Jun 05, 2020	Jun 09, 2020	263.20	263.20

Projected Payments to Fund[1]
(SDR million; based on existing use of resources and present holding of SDRs):

	Forthcoming				
	2025	**2026**	**2027**	**2028**	**2029**
Principal	26.32	52.64	56.30	69.46	97.10
Charges/interest	14.27	18.87	18.86	18.60	17.79
Total	**40.59**	**71.51**	**75.15**	**88.05**	**114.88**

Exchange Rate Arrangement

1. The *de jure* exchange rate arrangement is floating. The exchange rate of the kina is determined in the interbank market, in which authorized dealers participate. The BPNG intervenes in the foreign exchange market to smooth extreme fluctuations. On June 4, 2014, the BPNG introduced an exchange rate trading margin with a kina buying rate within 75 basis points (bps) above the interbank midrate and a kina selling rate within 75 bps below the midrate. From May 2023, the exchange rate has followed a depreciating trend with a 2 percent band against the U.S. dollar, with one realignment in October 2023. Therefore, the de facto exchange rate arrangement was reclassified to “crawl-like” from “stabilized”, effective May 4, 2023. The BPNG publishes the intervention data in its annual report and semi-annual monetary policy statement.

2. Separately, since January 3, 2024, the BPNG has been implementing a temporary crawl-like arrangement to support the gradual return to kina convertibility. The U.S. dollar is the anchor currency for the calculation of the crawl. The formula for a rate of crawl relies on both the latest estimate of the real misalignment of the kina and inflation differentials with major trading partners. A two percent-wide crawling band for the nominal exchange rate is implemented. The rate of crawl is reviewed and updated on a biannual basis.

3. Papua New Guinea maintains the following exchange restrictions subject to IMF approval under Article VIII, Section 2(a) of the IMF’s Articles of Agreement arising from: (i) the requirement to obtain a tax clearance certificate (TCC) evidencing the payment of all taxes prior to making payments or transfers for certain current international transactions; and (ii) the rationing of FX, which results in undue delays and arrears in current international payments. Papua New Guinea does not currently maintain any multiple currency practices subject to Fund approval under Article VIII, Section 3.

Article IV Consultations

4. The 2022 Article IV consultation discussions were held on April 4-26, 2022. It was concluded by the Executive Board on June 13, 2022 (IMF Country Report No. 22/305).

Resident Representative

5. The resident representative office was re-established in 2022. Mr. Sohrab Rafiq is the current Resident Representative.

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

TECHNICAL ASSISTANCE FROM IMF HEADQUARTERS

(May 2023 – April 2025)

A. Monetary and Capital Markets Department (MCM)

6. Monetary Operations and Exchange Rate Policies:

- ***Design of a reform roadmap (the "Roadmap") for transition to greater exchange rate flexibility.*** This TA mission assisted the authorities in designing a sequenced Roadmap for the transition to a *de facto* crawl-like exchange rate arrangement and to a monetary regime based on an exchange rate nominal anchor, with the objective of alleviating foreign exchange shortages, including in the context of the ECF-EFF arrangement (Jun 5 – 17, 2023).

- ***Peripatetic TA support on the implementation of the Roadmap.*** This ongoing TA has assisted the BPNG in addressing capacity challenges in the implementation of the Roadmap, the operationalization of the 2024 Central Banking Act amendments, as well as in monetary policy implementation and FX and money market development. So far, there have been two TA engagements under this program over Nov 11 – 29, 2024, Feb 17 – 28, 2025.

7. Financial Sector Stability Review (FSSR): delivered with the support of STA, the FSSR helped the BPNG identify financial sector needs and gaps and build a roadmap of technical assistance to address them, with a view to strengthen the resilience of financial institutions and to enhance the policy framework. The engagement consisted of four TA missions over Sep 26 – 28, 2023, Jan 11 – 15, 2024, Jun 20 – Jul 1, 2024 and Mar 19 – 21, 2025.

8. Local Currency Bond Market (LCBM) Development: At the request of the Department of Treasury, a joint IMF/World Bank mission assisted the authorities in assessing the current stage of the LCBM and to prepare a roadmap for further action and technical assistance in this area (Jan 2-29, 2025). A follow-up mission (with PFTAC) assisted the authorities in developing a securities issuance calendar and auction results template and to establish a governance framework that will guide future initiatives aimed at enhancing the LCBM (Mar 17 -28, 2025).

B. Fiscal Affairs Department (FAD)

9. Tax Policies: A TA mission helped the authorities in preparing the tax policy component of the government's new Medium-Term Revenue Strategy (MTRS) and advancing the legislative amendments of the Income Tax Act (ITA), with the aim to sustain the revenue base over the medium-term (Jun 1-12, 2023). This was followed up by a series of four TA engagements to help the authorities in finalizing the draft amendments to the ITA and associated implementing regulations and in engaging with the business community on the amendments (Nov 7-20, 2023, Aug 5-16, 2024, Oct 28 – Nov 1, 2024 and Mar 12-19, 2025).

10. Tax Administration Diagnostic Assessment Tool (TADAT). The reassessment mission (Nov 18 – Dec 5, 2024), delivered with PFTAC support, evaluated the Internal Revenue Commission's relative strengths and weaknesses in its administration of core taxes, including measuring progress of reforms since the last TADAT in 2018 to establish new baselines under the ongoing MTRS and IRC Strategic Plan (2023 – 2028). Results of this assessment will inform the prioritization of reforms at the IRC over the medium term.

11. Public Financial Management: A TA mission (Mar 13-26, 2024) helped identify the weaknesses in expenditure control and cash management and recommended practical measures to enhance them in the near and medium term. It also offered some advice on preparing for the move to a treasury single account. (Mar 13-26, 2024).

12. Climate Policies:

- ***Climate Policy Diagnostic (CPD).*** This TA mission (Jul 2 –15, 2024) consisted in a comprehensive climate policy diagnostic across all fiscal areas, assessing existing policies and institutions, and developing recommendations to strengthen them. Emphasis was placed on government priority areas, including disaster risk management and the reduction of deforestation and forest degradation. Findings and recommendations were used as support for the design of the RSF arrangement.

- ***Climate Public Investment Management Assessment (CPIMA).*** This TA mission (Jul 24 – Aug 2, 2024) assessed the integration of climate-related considerations into public investment management processes and offered a set of priority recommendations to improve that integration, used as support for the design of the RSF arrangement. A follow-up TA mission (Feb 19-25, 2025) advised the authorities on how to strengthen disaster risk screening in the context of new public investment projects.

C. Statistics Department (STA)

13. External Sector Statistics (ESS): Technical assistance engagement (with CDOT) to help the BPNG in strengthening source data and compilation frameworks for external sector statistics, improving the coverage, periodicity, and timeliness of the balance of payments, and advancing compilation of the international investment position. Two TA missions took place on these topics over Nov 27 – Dec 8, 2023, and Nov 25 – Dec 6, 2024.

14. Government Finance Statistics (GFS) / Public Sector Debt Statistics (PSDS): Engagement (with PFTAC) comprising technical assistance to the Department of Treasury on improving the compilation and dissemination of GFS and PSDS in accordance with the international statistical standards, and training sessions on how to compile and use GFS and PSDS. Three TA/training missions took place on these topics over Aug 2-15, 2023, Feb 12-23, 2024 and Feb 17-28, 2025).

D. Institute for Capacity Development (ICD)

15. Financial Programming and Policies (FPP) 2.0: Engagement (with PFTAC), comprising TA and training sessions, to help develop and operate the Department of Treasury's macroeconomic projection tool, which is a simple accounting-based framework in Excel. Two TA/training missions took place on these topics over May 10-25, 2023 and Jul 3-7, 2023.

RELATIONS WITH THE PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTER

(As of end-April 2025)

16. The Pacific Financial Technical Assistance Centre (PFTAC) in Suva, Fiji, is a regional TA institution operated by the IMF with financial support of PFTAC member countries, the Asian Development Bank, Australia, Japan, the European Union, Korea, New Zealand, the United Kingdom and the US Government. The Center's aim is to build skills and institutional capacity for effective economic and financial management that can be sustained at the national level. Member countries are: Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tokelau, Tonga, Tuvalu, and Vanuatu.

A. Tax Administration and Policy

17. PFTAC has been supporting for several years the Internal Revenue Commission (IRC)'s efforts in strengthening revenue administration management and governance arrangements. In the past two fiscal years, this has included advice and training on implementing people performance management systems, assistance in developing frameworks for institutional learning, measuring staff capability, developing program and change capability, and helping in carrying out a quality review of the IRC's IT systems. PFTAC has also participated in the Tax Administration Diagnostic Assessment Tool (TADAT) reassessment in November 2024.

B. Public Financial Management

18. In the past two fiscal years, PFTAC has supported the preparation and delivery of HQ technical assistance missions, participating in the Climate Public Investment Management Assessment (CPIMA) evaluation and in the TA mission on enhancing expenditure controls and cash management. It will support FAD's upcoming PIMA mission and has received a request for support on strengthening financial reporting standards.

C. Financial Sector Regulation and Supervision

19. For the past five years, PFTAC has been assisting the BPNG in upgrading its regulatory and supervisory frameworks, supporting the authorities in developing and reviewing prudential standards and prudential returns, in training staff in financial risk analysis of financial institutions and undertaking impact studies for new prudential standards. In the most recent engagement (February 2025), support has focused on the implementation of Pillar 2 of the Basel Framework and developing a prudential standard implementing Basel III Net Stable Funding Ratio for banks.

D. Economic and Financial Statistics

20. On government finance statistics (GFS) and public sector debt statistics (PSDS), PFTAC and STA have maintained a longstanding engagement with the Department of Treasury, through the delivery of technical assistance missions and trainings, to help strengthen GFS and PSDS compilation and dissemination, including by expanding institutional, instrument and classification coverage of GFS to general government and using SOE financial statements to expand PSDS.

21. On national accounts, recent technical assistance support has focused on helping the National Statistics Office in developing expenditure-based GDP and reviewing the current sources and methods used to compile GDP and the rebasing plans.

E. Macroeconomic Analysis

22. Since 2024, PFTAC has been supporting the BPNG's development of its nowcasting tools for GDP and strengthening of its macroframework, including by helping to construct an expenditure-based GDP measure. These tools are expected to support monetary policy decision-making by leveraging timely, high-frequency economic, financial, and fiscal data. Advice has also been provided on the restructuring of the BPNG's economics and research departments and on how to enhance information sharing with other departments and agencies. PFTAC (with ICD) is also supporting the Department of Treasury in developing and operating its macroeconomic projection tool.

F. Public Debt Management

23. PFTAC has been actively engaged in supporting PNG in enhancing its debt management practices, providing support to develop its Medium-Term Debt Management Strategy, which is now being updated annually, and formulating the corresponding annual borrowing plan (Debt Financing Plan) in response to local investors' demands for increased transparency and predictability in government security issuances. In January 2025, PFTAC supported an IMF-World Bank local currency bond market (LCBM) diagnostic mission to PNG to assess the development stage of the different domestic market pillars and to develop an action plan on LCBM development, including on how to improve institutional arrangements. This was followed up in March 2025 by TA support on preparing a quarterly issuance plan and templates for the publication of auction results.

INFORMATION ON THE ACTIVITIES OF OTHER IFIs

Information on the activities of other IFIs in Papua New Guinea can be found at:

- World Bank: https://www.worldbank.org/en/country/png
- Asian Development Bank: https://www.adb.org/countries/papua-new-guinea/main

PAPUA NEW GUINEA

May 28, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION, FOURTH REVIEWS UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND THE ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, REQUESTS FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, MODIFICATION OF A QUANTITATIVE PERFORMANCE CRITERION, AND FIRST REVIEW UNDER THE 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 distress	*High*
Overall risk of debt distress	*High*
Granularity in the risk rating	*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*

[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—October 2024 IMF World Economic Outlook (WEO) and the World Bank's Country Policy and Institutional Assessment (CPIA) for 2023 indicating a "weak" capacity to carry debt.

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 consolidation, structural reforms fostering private sector growth, and climate-related adaptation and mitigation measures 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 2024) 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).[3] However, debt numbers do not fully capture implicit government guaranteed debts of SOEs and unfunded superannuation liabilities relating to pensions.[4] 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 estimated to be close to 2 percent of GDP in 2024). 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 denomination 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	

1	The country's coverage of public debt	The central, state, and local governments, government-guaranteed debt		
		Default	Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0 percent of GDP	3	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] The debt data coverage is appropriate for the purpose of this DSA given data availability, with the inclusion of a contingent liability test calibrated to capture risks arising from unobserved SOE debt.

[4] Comprehensive data on the debt stock of SOEs in PNG is not publicly available. The ADB has been supporting the authorities' reform efforts to strengthen 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 2024, the stock of public debt in PNG increased from around 24 billion Kina to just above 65 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 has contributed 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, 2024-2026 [1/]

	Debt Stock (end of period)			Debt Service					
	2024			2024	2025	2026	2024	2025	2026
	(In US$ million)	*(Percent total debt)*	*(Percent GDP) 5/*	*(In US$ million)*			*(Percent GDP)*		
Total	16310	100	54	5152	5034	4950	16	15	15
External	8339	51	27	475	568	711	2	2	2
Multilateral creditors 2/, 3/	4377	27	14	222	272	311	1	1	1
IMF	1098	7	4	6	27	63	0	0	0
World Bank	580	4	2	30	30	35	0	0	0
ADB	2587	16	9	179	208	203	1	1	1
Other Multilaterals	113	1	0	7	8	10	0	0	0
Bilateral Creditors 2/	3423	21	11	198	247	352	1	1	1
Paris Club	2339	14	8	86	118	221	0	0	1
o/w: Australia	1963	12	6	71	104	185	0	0	1
Non-Paris Club	1084	7	4	112	129	131	0	0	0
o/w: China EXIM	991	6	3	90	97	100	0	0	0
Bonds	500	3	2	41	42	42	0	0	0
Commercial creditors	39	0	0	14	7	7	0	0	0
Other international creditors	0	0	0	0	0	0	0	0	0
Domestic	7971	49	26	4677	4466	4239	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	23	12	3830	3664	3093	12	11	9
Bonds	3383	21	11	685	641	995	2	2	3
Loans	795	5	3	161	161	151	1	0	0
Memo items:									
Collateralized debt 2/, 4/	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Contingent liabilities	677	4	2	n/a	n/a	n/a	n/a	n/a	n/a
Nominal GDP	31496								

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 (260 percent of quota) 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. These arrangements were extended in December 2024 by 7 additional months and now expected to expire in December 2026.

5. **A 24-month Resilience and Sustainability Facility (RSF) supporting authorities' plans to address climate-related risks and associated investment costs in PNG was approved in December 2024.** 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 a total IDA20 allocation at SDR 208.1 million (US$ 274.4 million).** As a Blend country, PNG receives IDA financing in credit terms and Shorter Maturity Loans (SMLs). 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). Under IDA21 (effective July 1, 2025), PNG would receive financing in Blend term fixed rate concessional credits, with no SMLs. 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).** Over the past four years, the focus areas have included limiting non-concessional borrowing, operationalizing the State Guarantee Policy, improving fiscal risk management, and enhancing domestic revenue mobilization. A continuous PPA has been the imposition of a non-concessional borrowing ceiling, which has evolved in value over the years. This measure has helped PNG mitigate long-term debt risks. In FY23, PNG missed its PPAs, which included a US$1 billion PPG external borrowing limit and the approval of a revised on-lending policy. Consequently, the country faced a 20 percent set-aside from its FY24 IDA country allocation. In June 2024, PNG satisfactorily met four PPAs, including additional ones due to previous non-performance, and recovered the set-aside at the start of FY25. For fiscal year

2025, the PPAs include a US$1.425 billion PPG external borrowing ceiling, applied throughout the year, and the implementation of a Dividend Policy for state holding companies to improve domestic revenue mobilization. This policy aims to clarify principles and rules for calculating annual dividend payments to the budget.

BACKGROUND ON MACROECONOMIC FORECASTS

8. **Growth in 2025 is expected to be driven by a stronger growth of both the resource and non-resource sectors** (Text Table 3). Real GDP growth in 2024 is estimated to have been broadly stable from 2023, at 3.8 percent, driven by a gradual improvement in the resource sector (1.7 percent) as production capacity in the Porgera gold mine increased, while growth in the non-resource sector remained resilient (4.5 percent). Economic growth is projected to modestly increase in 2025 (4.7 percent), reflecting continued improvement in gold production while growth in the non-resource sector is expected to accelerate, supported by a more competitive agricultural sector and improved access to foreign exchange. Average inflation decelerated from the recent peak recorded in 2022 (5.3 percent) to 2.3 percent in 2023—as global commodity prices moderated and supply chain constraints eased—and further to 0.6 percent in 2024, mostly due to a steep drop of betel nut prices and the waning effect of education subsidies. The current account balance is estimated to have picked up to 15.6 percent of GDP in 2024, from 9.0 percent of GDP in 2023.[5] In 2024, goods exports volumes are estimated to have expanded close to 5 percent compared to 2023, as production and prices recovered, while imports recorded a second year of contractions. Higher commodity prices and some improvements in quantities underpin assumptions for an increase in nominal exports in 2025, while imports bounce back.

Text Table 3. Papua New Guinea: DSA Vintages: Macroeconomic and Fiscal Assumptions, 2025-2030

	DSA Vintage	2025	2026	2027	2028-2030
Real GDP growth y/y (in percent)	**2025 ECF/EFF fourth rev.**	**4.7**	**3.5**	**3.1**	**3.1**
	2024 ECF/EFF third rev.	4.6	3.5	3.1	3.1
Resource sector	2025 ECF/EFF fourth rev.	4.7	1.4	0.1	0.2
	2024 ECF/EFF third rev.	3.8	1.5	0.1	0.2
Non-resource sector	2025 ECF/EFF fourth rev.	4.8	4.2	4.1	4.0
	2024 ECF/EFF third rev.	4.8	4.2	4.1	4.0
Inflation, annual average (consumer prices, percent)	**2025 ECF/EFF fourth rev.**	**4.8**	**4.6**	**4.6**	**4.5**
	2024 ECF/EFF third rev.	5.1	4.3	4.3	4.4
Current account balance (percent of GDP)	**2025 ECF/EFF fourth rev.**	**10.8**	**12.7**	**11.3**	**11.3**
	2024 ECF/EFF third rev.	11.8	11.1	10.2	8.5
Growth of exports of G&S (US$, in percent)	2025 ECF/EFF fourth rev.	10.4	1.3	4.3	5.4
	2024 ECF/EFF third rev.	11.8	4.1	3.6	2.9
Growth of imports of G&S (US$, in percent)	2025 ECF/EFF fourth rev.	22.2	8.1	3.3	3.3
	2024 ECF/EFF third rev.	5.3	3.8	3.4	3.3
Primary balance (percent of GDP)	**2025 ECF/EFF fourth rev.**	**0.0**	**1.4**	**2.3**	**2.1**
	2024 ECF/EFF third rev.	0.0	1.3	2.5	2.6
Government revenues (excluding grants, percent of GDP)	2025 ECF/EFF fourth rev.	16.8	17.5	17.7	18.1
	2024 ECF/EFF third rev.	17.6	17.9	18.4	19.2

Source: PNG authorities; IMF staff estimates and projections.

[5] 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 2024 DSA (Text Table 3). In line with previous DSAs, the long-term potential real growth rate is estimated at around 3 percent[6] based on historical growth, adjusted for PNG's reliance on natural resources whose prices are volatile, and the country's vulnerability to climate change and natural disasters. Strong non-resource sector growth is expected, driven by the government's strategic focus on agriculture (as detailed in the National Agriculture Sector Plan and the Medium-Term Development Plan IV). With 58 percent of the population under 25 years, PNG has a young workforce that can boost productivity and demand for non-farm goods and services, supporting sustained economic expansion. Meanwhile, inflation is projected to reach an annual average of 4.5 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. The projection builds in a significant fiscal consolidation, which would result in primary surpluses as early as 2026 (Text Tables 3 and 4). 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 17.9 percent of GDP in 2025, 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 depreciation allowances decline. 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 extreme weather events), lower global growth, and social or political instability. PNG is vulnerable to natural disasters (earthquakes and volcanic eruptions) as well as the impact of extreme weather events (flooding, landslides, droughts, and storm surge rising sea level).[7] Lower global growth would likely impact PNG through lower commodity prices, with adverse consequences for the balance of

[6] 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.

[7] Authorities are working closely with partners to develop climate mitigation and adaptation programs through the Green Climate Fund and develop green financing standards through the BPNG, among other initiatives. Moreover, there is a continued and growing need for support in this area.

payments and budget through lower resource revenue. Further political and social instability could hinder economic growth by undermining or delaying 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 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, 2025-2027

	2025	2026	2027
Revenue and grants (percent of GDP)	**17.9**	**18.6**	**18.8**
Taxes	15.1	15.6	15.8
Grants	1.1	1.1	1.1
Other revenue	1.7	1.9	2.0
Expenditure (percent of GDP)	**20.5**	**19.7**	**18.8**
Expense	16.9	16.3	15.4
Compensation of employees	5.7	5.5	5.2
Use of goods and services	5.1	4.9	4.6
Interest	2.6	2.6	2.3
Other	3.5	3.4	3.3
Net acquisition of nonfinancial assets	3.6	3.4	3.4
	0.0	0.0	0.0
Gross operating balance	3.6	4.9	5.7
Net lending (+)/borrowing (-)	-2.6	-1.2	0.0
Primary balance (percent of GDP)	**0.0**	**1.4**	**2.3**

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 3.5 percent, the 2025-2027 cumulative adjustment of the primary balance is within the top 25 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.[8] Growth beyond 2026 would be supported by the resilient non-resource sector, as access to FX improves and unleashes the growth momentum of the private non-resource sector.

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

[8] The increased production capacity of the Porgera gold mine is projected to contribute to strong growth in the resource sector.

corresponding to T-bills by the end of the decade.[9] 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 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 October 2024 World Economic Outlook and the 2023 Country Policy and Institutional Assessment (CPIA), PNG's Composite Indicator (CI) is 2.57, indicating weak debt-carrying capacity (Text Table 5).[10] 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.

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.[11] Further, given the size and importance of PNG's resource sector (with the share of commodities in total exports of goods and services exceeding 95 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 26 percent—with 20 percent for base metals and precious metals, and 37 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 38 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, the tailored natural disasters stress test was also conducted (see the *Climate Change Risks* section for a discussion of the results).

[9] In 2024, domestic financing relied largely on T-bills (close to 80 percent of issuances), exceeding initial plans, due to the significant tightening of liquidity conditions, particularly affecting T-bond issuances. In this environment, the authorities auctioned longer-dated bonds at market-determined yields and relied on more external financing than planned earlier in the year.

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

[11] 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.

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	2.850	1.10	43%
Real growth rate (in percent)	2.719	2.644	0.07	3%
Import coverage of reserves (in percent)	4.052	41.599	1.69	66%
Import coverage of reserves^2 (in percent)	-3.990	17.305	-0.69	-27%
Remittances (in percent)	2.022	0.002	0.00	0%
World economic growth (in percent)	13.520	2.967	0.40	16%
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	2.57	2.58

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

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.[12] Marginal breaches also arise in 2026-2027 and 2029-2030 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. This liquidity indicator

[12] Authorities are preparing a redemption plan for the US$500 million Sovereign Bond maturing in 2028, and have requested additional technical assistance to enhance debt management capabilities. Options under consideration include using accumulated buffers, a partial and a full rollover.

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-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 contained 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 DSA shows an improvement to the assessment of debt dynamics with smaller residuals over the forecast horizon (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 50 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) until 2029. Under the baseline scenario, the public debt-to-GDP ratio is on a downward trajectory and will fall towards 50 percent of GDP by 2026 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).

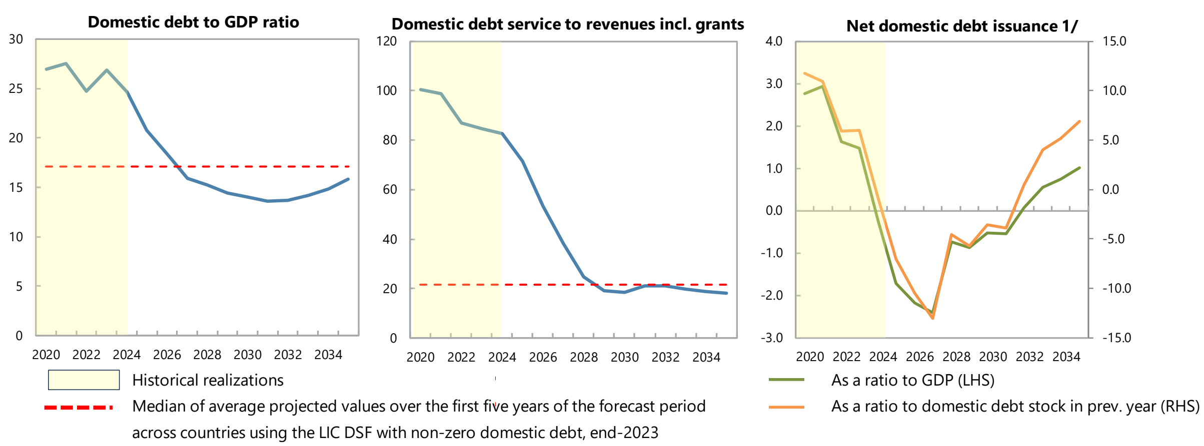
20. The high concentration of domestic debt in short-term bills and an undiversified base of creditors, highlights rollover risks. Half of the public domestic debt is held by the banking sector, illustrating PNG's high bank-sovereign nexus. At end-2024, commercial banks held about 13 percent of

GDP of T-bills and T-bonds. In line with the high concentration of the banking sector in PNG, the largest bank, which accounts for roughly two thirds of the total financial system assets and with which many government agencies keep their deposit accounts, held 3/5 of all government securities at end-2024. 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 (1.8 percent of GDP at end-2024), 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).[13] In addition, the fall in the level of short-term debt, from an estimated peak just above PGK14 bn in 2023, is a mitigating factor for liquidity risks. The residuals from unidentified debt creating flows recorded in 2021 (3.5 percent), are not anticipated to be repeated (Figure 3) as the government has taken several steps to improve recording and reporting of debt.[14] 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 2020-2034

(Percent)



Borrowing Assumptions (average over 10-year projection)	Value
Shares in new domestic debt issuance	
Medium and long-term	41%
Short-term	59%
Borrowing terms	
Domestic MLT debt	
Avg. real interest rate on new borrowing	5.6%
Avg. maturity (incl. grace period)	7
Avg. grace period	4
Domestic short-term debt	
Avg. real interest rate	3.4%

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.

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

[14] 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 65.0 percent of GDP in 2027, almost doubling the 35 percent benchmark and substantially above the starting level of 47 percent of GDP in 2025, 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.[15] 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

[15] 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.[16] 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 most of 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 benchmark 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. Availability 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 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 development of

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

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, explain the elevated debt service-to-revenue ratio in 2025. 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 ongoing 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, whose growth in the recent past was mainly driven by large deficits and depreciation of the Kina (outweighing the pull from economic growth and low interested rates), is expected to remain elevated in the near-term and to enter a clear downward path over the medium-term. The fall in debt over the forecast horizon would be driven by the authorities' fiscal consolidation efforts and sustained economic growth, which would dominate somewhat higher interest rates and depreciation of the currency. Meanwhile, 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.[17] This baseline sustainability assessment also relies upon higher future resource revenue as tax exemptions expire from 2026 onwards.

[17] The SDFP ceiling for IDA FY25, currently under implementation, will be consistent with the CY24 ceiling under the Third Reviews of the ECF/EFF arrangements.

AUTHORITIES' VIEWS

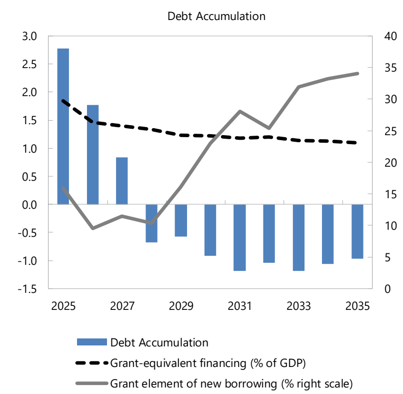
32. The authorities agreed with staff's assessment that PNG's overall and external public debt remain at high risk of distress, but debt is sustainable under the baseline projection. They stressed that large financing requirements to dampen the effects of the COVID-19 pandemic on PNG's economy continue to leave a mark on public debt but were confident about their capacity to continue delivering a fiscal consolidation path and reduce debt risks. With the redemption of the US$ 500 million Eurobond in 2028, and elevated debt service posing significant risks, the authorities highlighted their intent to strengthen debt management capacity and continue favoring the strategy of substituting costly financing with concessional financing from multilateral and bilateral partners. The authorities have requested TA to strengthen debt management capacity. With rising interest costs of domestic securities and last year's shortening of average maturities of new issuances amid tighter liquidity conditions, they also highlighted the importance of more proactive cash management practices and reiterated the importance of TA in these areas. Improved coordination with the central bank and the implementation of the medium-term revenue strategy and the recently approved dividend policy are mitigating factors that will contribute to reducing risks in the medium-term.

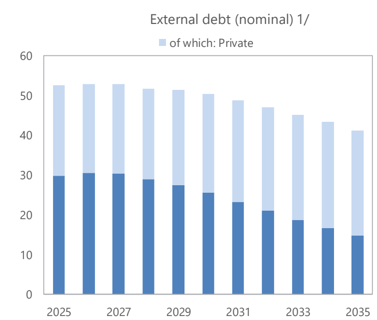
Table 1. Papua New Guinea: External Debt Sustainability Framework, Baseline Scenario, 2022-2045

(In Percent of GDP, Unless Otherwise Indicated)

	Actual			Projections								Average 8/	
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2035	2045	Historical	Projections
External debt (nominal) 1/	51.8	49.1	51.1	52.5	52.8	52.8	51.7	51.3	50.3	41.1	26.0	**67.4**	**48.8**
of which: public and publicly guaranteed (PPG)	23.5	27.0	27.4	29.7	30.5	30.3	28.8	27.4	25.4	14.8	5.2	**17.6**	**24.2**
Change in external debt	-11.0	-2.7	2.1	1.4	0.2	0.1	-1.2	-0.4	-1.0	-2.2	-1.0		
Identified net debt-creating flows	-29.4	-8.4	-19.7	-16.7	-17.1	-15.8	-16.0	-15.1	-15.8	-13.9	-14.1	**-17.8**	**-15.6**
Non-interest current account deficit	-16.2	-11.2	-16.9	-12.8	-13.6	-13.4	-13.6	-12.7	-13.5	-11.4	-10.4	**-15.8**	**-12.8**
Deficit in balance of goods and services	-19.9	-15.9	-20.9	-19.6	-17.6	-18.0	-19.0	-20.1	-20.8	-17.9	-14.8	**-18.2**	**-19.1**
Exports	47.0	42.7	44.0	46.8	46.3	46.5	47.5	48.6	49.2	42.7	32.3		
Imports	27.1	26.7	23.1	27.1	28.6	28.5	28.5	28.5	28.4	24.9	17.5		
Net current transfers (negative = inflow)	-0.4	-0.6	-0.7	-0.7	-0.7	-0.7	-0.6	-0.6	-0.6	-0.4	-0.2	**-1.0**	**-0.6**
of which: official	-1.2	-1.2	-0.9	-0.8	-0.8	-0.8	-0.7	-0.7	-0.7	-0.5	-0.3		
Other current account flows (negative = net inflow)	4.2	5.2	4.8	7.6	4.7	5.3	6.0	8.0	7.9	6.9	4.7	**3.4**	**6.9**
Net FDI (negative = inflow)	-4.0	-0.9	-2.9	-2.9	-2.9	-2.9	-2.9	-2.9	-2.8	-2.9	-3.9	**-2.6**	**-3.1**
Endogenous debt dynamics 2/	-9.3	3.8	0.1	-1.0	-0.5	0.5	0.5	0.5	0.5	0.4	0.2		
Contribution from nominal interest rate	1.7	2.2	1.3	1.4	1.3	2.1	2.1	2.1	2.1	1.6	1.0		
Contribution from real GDP growth	-3.0	-2.0	-1.8	-2.3	-1.8	-1.6	-1.6	-1.6	-1.5	-1.3	-0.8		
Contribution from price and exchange rate changes	-8.0	3.6	0.6	...	...	...	...	...	...	...	...		
Residual 3/	18.4	5.7	21.8	18.0	17.3	15.9	14.8	14.7	14.8	11.7	13.1	**13.5**	**14.7**
of which: exceptional financing	0.0	-0.6	-0.8	-1.2	-0.7	0.2	0.3	0.4	0.3	0.2	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	23.5	25.3	26.4	26.3	24.8	23.5	21.7	11.7	3.1		
PV of PPG external debt-to-exports ratio	...	...	53.4	54.1	57.1	56.5	52.2	48.3	44.2	27.4	9.6		
PPG debt service-to-exports ratio	2.1	3.7	4.3	5.0	5.7	5.8	8.8	5.6	5.5	4.6	2.1		
PPG debt service-to-revenue ratio	6.5	9.4	11.6	13.8	15.1	15.3	23.4	15.1	14.9	10.2	3.6		
Gross external financing need (Million of U.S. dollars)	-2218.3	1744.4	-4210.7	-2052.9	-2869.6	-1703.6	-1440.3	-1892.7	-2658.7	-3394.7	-9775.6		
Key macroeconomic assumptions													
Real GDP growth (in percent)	5.7	3.8	3.8	4.7	3.5	3.1	3.1	3.1	3.1	3.1	3.1	**2.9**	**3.3**
GDP deflator in US dollar terms (change in percent)	14.7	-6.5	-1.2	-0.8	-1.2	0.6	0.2	0.1	0.6	3.2	2.0	**0.5**	**1.2**
Effective interest rate (percent) 4/	3.3	4.1	2.8	2.8	2.5	4.1	4.1	4.2	4.2	4.0	3.9	**3.3**	**3.9**
Growth of exports of G&S (US dollar terms, in percent)	34.7	-11.8	5.7	10.4	1.3	4.3	5.4	5.7	5.0	3.1	3.6	**5.5**	**4.3**
Growth of imports of G&S (US dollar terms, in percent)	33.3	-4.1	-11.6	22.2	8.1	3.3	3.2	3.2	3.4	3.1	2.6	**3.6**	**5.4**
Grant element of new public sector borrowing (in percent)	...	...	...	15.9	9.5	11.4	10.3	16.0	23.0	34.0	31.2	**...**	**21.7**
Government revenues (excluding grants, in percent of GDP)	15.3	16.9	16.2	16.8	17.5	17.7	17.8	18.1	18.3	19.3	19.4	**14.9**	**18.4**
Aid flows (in Million of US dollars) 5/	773.8	998.9	789.9	566.2	397.7	509.6	518.5	484.4	514.3	659.9	782.4		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	1.8	1.5	1.4	1.3	1.2	1.2	1.1	0.7	**...**	**1.3**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	32.3	31.9	38.6	37.8	57.8	66.2	74.1	80.1	**...**	**57.0**
Nominal GDP (Million of US dollars)	31,653	30,729	31,496	...	...	...	...	...	...	... ...	...		
Nominal dollar GDP growth	21.2	-2.9	2.5	3.9	2.3	3.7	3.3	3.2	3.8	6.4	5.1	**3.4**	**4.6**
Memorandum items:													
PV of external debt 7/	...	...	47.2	48.1	48.7	48.8	47.6	47.3	46.6	38.1	23.9		
In percent of exports	...	...	107.2	102.9	105.3	104.9	100.3	97.3	94.6	89.1	73.9		
Total external debt service-to-exports ratio	28.0	41.8	14.7	20.1	17.3	24.5	26.3	21.6	19.1	18.0	12.5		
PV of PPG external debt (in Million of US dollars)			7396.8	8271.4	8848.8	9128.6	8893.3	8688.9	8348.7	6020.6	2969.2		
(PVt-PVt-1)/GDPt-1 (in percent)				2.8	1.8	0.8	-0.7	-0.6	-0.9	-1.0	-0.3		
Non-interest current account deficit that stabilizes debt ratio	-5.2	-8.5	-19.0	-14.2	-13.9	-13.5	-12.4	-12.4	-12.5	-9.2	-9.4		

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.

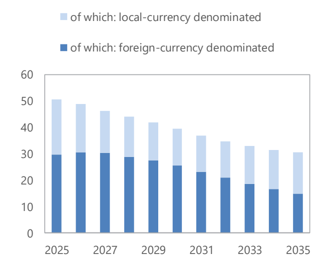
Table 2. Papua New Guinea: Public Sector Debt Sustainability Framework, Baseline Scenario, 2022-2045

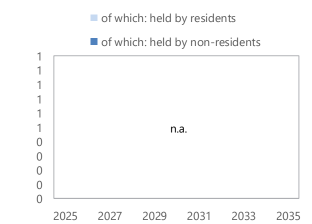
(In Percent of GDP, Unless Otherwise Indicated)

	Actual			Projections								Average 6/	
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2035	2045	Historical	Projections
Public sector debt 1/	**48.2**	**53.9**	**52.1**	**50.5**	**48.9**	**46.3**	**44.1**	**41.9**	**39.4**	**30.6**	**29.4**	**42.4**	**39.8**
of which: external debt	**23.5**	**27.0**	**27.4**	**29.7**	**30.5**	**30.3**	**28.8**	**27.4**	**25.4**	**14.8**	**5.2**	**17.6**	**24.2**
Change in public sector debt	-4.4	5.7	-1.8	-1.6	-1.6	-2.6	-2.2	-2.2	-2.4	-0.8	0.4		
Identified debt-creating flows	**-5.4**	**4.9**	**-0.8**	**-3.0**	**-2.1**	**-2.7**	**-2.3**	**-2.4**	**-2.3**	**-0.4**	**0.5**	**1.3**	**-1.9**
Primary deficit	**2.9**	**1.8**	**1.0**	**0.0**	**-1.4**	**-2.3**	**-2.1**	**-2.2**	**-2.1**	**-0.2**	**0.1**	**2.5**	**-1.4**
Revenue and grants	16.6	17.9	17.0	17.9	18.6	18.8	18.9	19.1	19.3	20.2	20.1	**16.6**	**19.5**
of which: grants	1.3	1.0	0.9	1.1	1.1	1.1	1.1	1.1	1.0	0.9	0.7		
Primary (noninterest) expenditure	19.6	19.8	18.0	18.0	17.1	16.5	16.8	17.0	17.2	20.0	20.2	**19.1**	**18.0**
Automatic debt dynamics	**-8.3**	**3.0**	**-1.7**	**-3.0**	**-0.7**	**-0.3**	**-0.2**	**-0.2**	**-0.2**	**-0.2**	**0.4**		
Contribution from interest rate/growth differential	-6.8	-0.3	-2.7	-3.0	-0.7	-0.3	-0.2	-0.2	-0.2	-0.2	0.4		
of which: contribution from average real interest rate	-4.0	1.5	-0.8	-0.7	1.0	1.1	1.2	1.2	1.1	0.7	1.2		
of which: contribution from real GDP growth	-2.8	-1.8	-2.0	-2.4	-1.7	-1.5	-1.4	-1.3	-1.3	-0.9	-0.9		
Contribution from real exchange rate depreciation	-1.5	3.3	1.0	...	...	...	...	...	...	...	...		
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	**1.0**	**0.8**	**-1.0**	**1.4**	**0.5**	**0.1**	**0.2**	**0.1**	**-0.2**	**-0.4**	**-0.1**	**1.3**	**0.0**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**49.0**	**46.9**	**45.2**	**42.6**	**40.4**	**38.3**	**35.9**	**27.7**	**27.3**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**287.5**	**261.4**	**243.1**	**226.0**	**213.6**	**199.9**	**185.9**	**136.7**	**136.0**		
Debt service-to-revenue and grants ratio 3/	**92.9**	**93.6**	**93.8**	**84.4**	**67.5**	**52.5**	**46.9**	**33.5**	**32.5**	**28.0**	**39.3**		
Gross financing need 4/	18.4	18.6	17.0	15.2	11.1	7.5	6.7	4.2	4.1	5.4	8.0		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	5.7	3.8	3.8	4.7	3.5	3.1	3.1	3.1	3.1	3.1	3.1	**2.9**	**3.3**
Average nominal interest rate on external debt (in percent)	2.6	3.2	3.3	4.0	4.0	4.0	4.1	4.1	4.1	3.8	3.1	**1.7**	**4.0**
Average real interest rate on domestic debt (in percent)	-11.5	6.6	-3.9	-4.3	2.5	2.9	3.4	3.5	3.4	2.7	5.0	**-1.1**	**2.5**
Real exchange rate depreciation (in percent, + indicates depreciation)	-6.5	14.6	3.8	...	...	...	...	...	...	...	...	**2.6**	**...**
Inflation rate (GDP deflator, in percent)	15.0	-4.3	5.9	6.0	3.3	3.2	2.8	2.9	3.1	3.2	2.0	**5.0**	**3.2**
Growth of real primary spending (deflated by GDP deflator, in percent)	6.1	4.7	-5.4	4.5	-1.3	-0.8	4.9	4.2	4.8	5.6	4.6	**-0.2**	**4.3**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	7.3	-3.8	2.7	1.6	0.2	0.2	0.0	0.0	0.3	0.6	-0.3	**2.1**	**0.5**
PV of contingent liabilities (not included in public sector debt)	0.2	0.2	0.1	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**

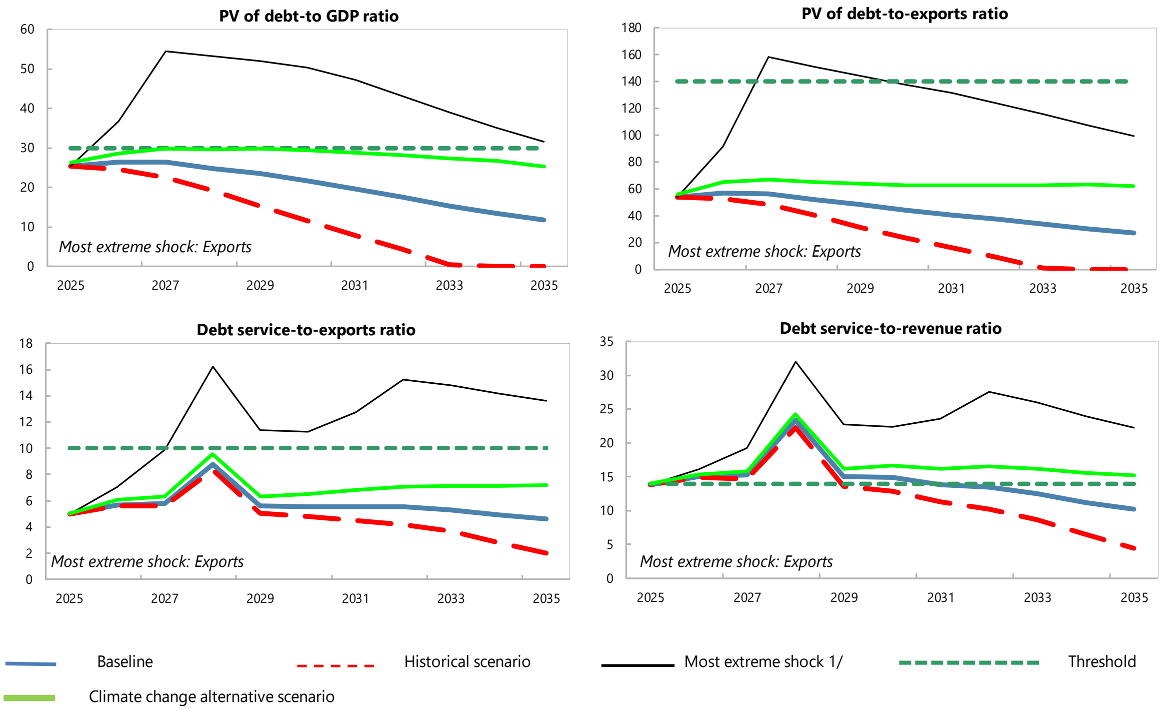
Public sector debt 1/





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, 2025-2035



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	3.9%	3.9%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	20	20
Avg. grace period	4	4

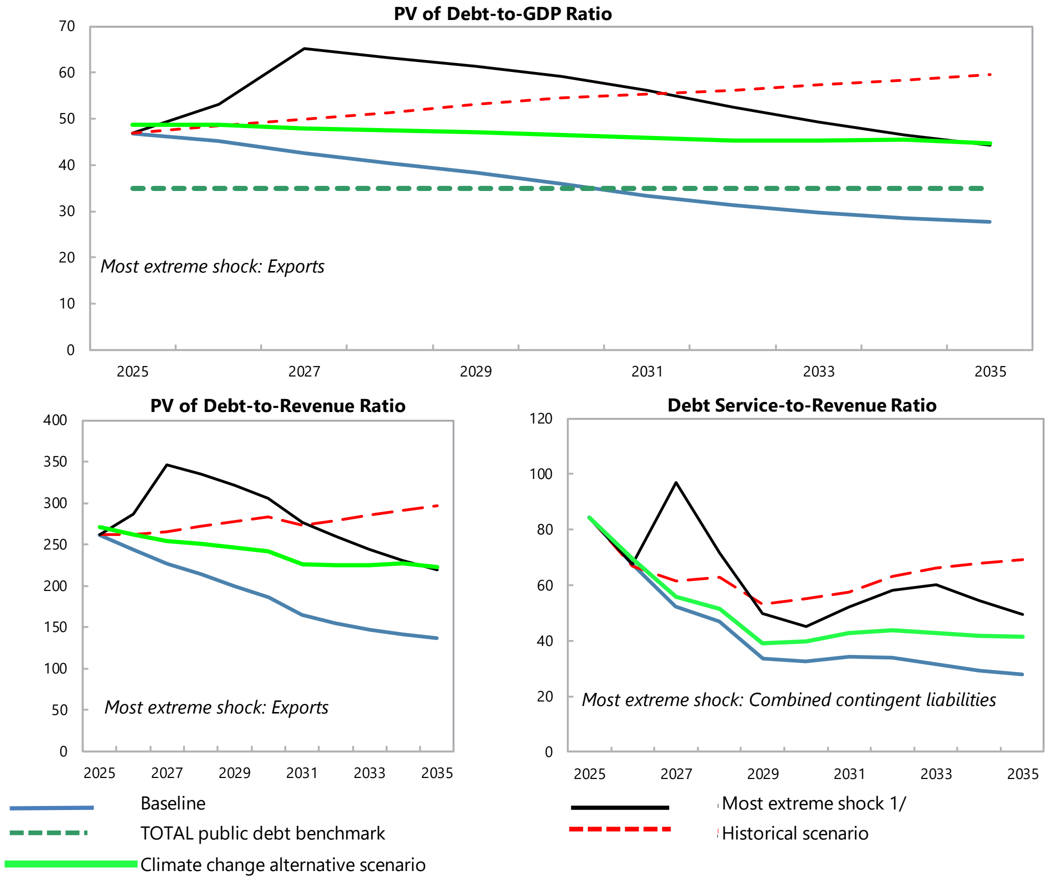
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

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 2035. 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, 2025-2035



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	22%	22%
Domestic medium and long-term	32%	32%
Domestic short-term	46%	46%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	3.9%	3.9%
Avg. maturity (incl. grace period)	20	20
Avg. grace period	4	4
Domestic MLT debt		
Avg. real interest rate on new borrowing	5.6%	5.6%
Avg. maturity (incl. grace period)	7	7
Avg. grace period	4	4
Domestic short-term debt		
Avg. real interest rate	3.4%	3.4%

* 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 2035. 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, 2025-2035

(In Percent)

	Projections 1/										
	2025	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**
PV of debt-to GDP ratio											
Baseline	25	26	26	25	23	22	20	18	15	13	12
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	25	24	22	19	15	12	8	4	0	0	0
A2. Alternative Scenario : Climate change	26	29	30	30	30	29	29	28	27	27	25
B. Bound Tests											
B1. Real GDP growth	25	28	29	28	26	24	22	20	17	15	13
B2. Primary balance	25	28	**31**	30	29	28	26	24	22	20	19
B3. Exports	25	**37**	**54**	**53**	**52**	**50**	**47**	**43**	**39**	**35**	**32**
B4. Other flows 3/	25	29	**31**	30	28	27	25	22	20	17	15
B5. Depreciation	25	**34**	**35**	**33**	**32**	30	27	24	21	19	16
B6. Combination of B1-B5	25	**34**	**37**	**35**	**34**	**32**	29	27	24	21	19
C. Tailored Tests											
C1. Combined contingent liabilities	25	30	**31**	**31**	30	28	27	25	23	21	20
C2. Natural disaster	25	30	**31**	30	29	28	26	24	23	21	20
C3. Commodity price	25	**35**	**43**	**43**	**43**	**42**	**41**	**39**	**36**	**34**	**32**
C4. Market Financing	25	30	29	28	26	24	22	20	17	15	13
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	54	57	57	52	48	44	41	37	34	30	27
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	54	53	48	40	31	24	16	9	1	0	0
A2. Alternative Scenario : Climate change	56	65	67	65	64	63	63	63	63	63	62
B. Bound Tests											
B1. Real GDP growth	54	57	57	52	48	44	41	37	34	30	27
B2. Primary balance	54	60	66	63	60	56	53	50	48	46	43
B3. Exports	54	92	**158**	**151**	**144**	138	132	124	116	107	100
B4. Other flows 3/	54	62	67	63	59	54	51	47	43	39	36
B5. Depreciation	54	57	60	55	51	47	44	40	37	33	30
B6. Combination of B1-B5	54	76	72	82	77	72	67	63	58	53	48
C. Tailored Tests											
C1. Combined contingent liabilities	54	65	67	65	61	58	55	53	51	49	47
C2. Natural disaster	54	64	66	63	59	56	53	51	49	48	46
C3. Commodity price	54	93	109	102	97	92	87	85	81	79	76
C4. Market Financing	54	57	57	52	48	44	41	37	34	30	27
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	5	6	6	9	6	6	6	6	5	5	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	5	6	6	8	5	5	4	4	4	3	2
A2. Alternative Scenario : Climate change	5	6	6	10	6	6	7	7	7	7	7
B. Bound Tests											
B1. Real GDP growth	5	6	6	9	6	6	6	6	5	5	5
B2. Primary balance	5	6	6	9	6	6	6	7	6	6	6
B3. Exports	5	7	10	**16**	**11**	**11**	**13**	**15**	**15**	**14**	**14**
B4. Other flows 3/	5	6	6	9	6	6	6	7	6	6	6
B5. Depreciation	5	6	6	9	6	6	6	6	6	5	5
B6. Combination of B1-B5	5	6	8	**11**	8	8	8	9	8	8	7
C. Tailored Tests											
C1. Combined contingent liabilities	5	6	6	9	6	6	6	7	7	6	6
C2. Natural disaster	5	6	6	9	6	6	6	7	6	6	6
C3. Commodity price	5	7	8	**12**	8	8	9	10	10	9	9
C4. Market Financing	5	6	6	9	6	6	6	6	5	5	4
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	14	**15**	**15**	**23**	**15**	**15**	14	13	12	11	10
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	14	**15**	**15**	**22**	14	13	11	10	9	6	4
A2. Alternative Scenario : Climate change	14	**15**	**16**	**24**	**16**	**17**	**16**	**17**	**16**	**16**	**15**
B. Bound Tests											
B1. Real GDP growth	14	**16**	**17**	**26**	**17**	**17**	**15**	**15**	14	13	11
B2. Primary balance	14	**15**	**16**	**25**	**17**	**17**	**16**	**16**	**15**	**14**	13
B3. Exports	14	**16**	**19**	**32**	**23**	**22**	**24**	**28**	**26**	**24**	**22**
B4. Other flows 3/	14	**15**	**16**	**24**	**16**	**16**	**16**	**16**	**15**	13	12
B5. Depreciation	14	**19**	**19**	**30**	**20**	**19**	**18**	**18**	**17**	**15**	14
B6. Combination of B1-B5	14	**16**	**18**	**28**	**18**	**18**	**19**	**19**	**18**	**16**	**15**
C. Tailored Tests											
C1. Combined contingent liabilities	14	**15**	**16**	**25**	**16**	**16**	**16**	**16**	**16**	**15**	14
C2. Natural disaster	14	**16**	**16**	**25**	**17**	**16**	**16**	**16**	**15**	**14**	13
C3. Commodity price	14	**17**	**20**	**32**	**22**	**21**	**22**	**23**	**22**	**21**	**20**
C4. Market Financing	14	**15**	**15**	**23**	**16**	**16**	**15**	**14**	13	11	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, 2025-2035

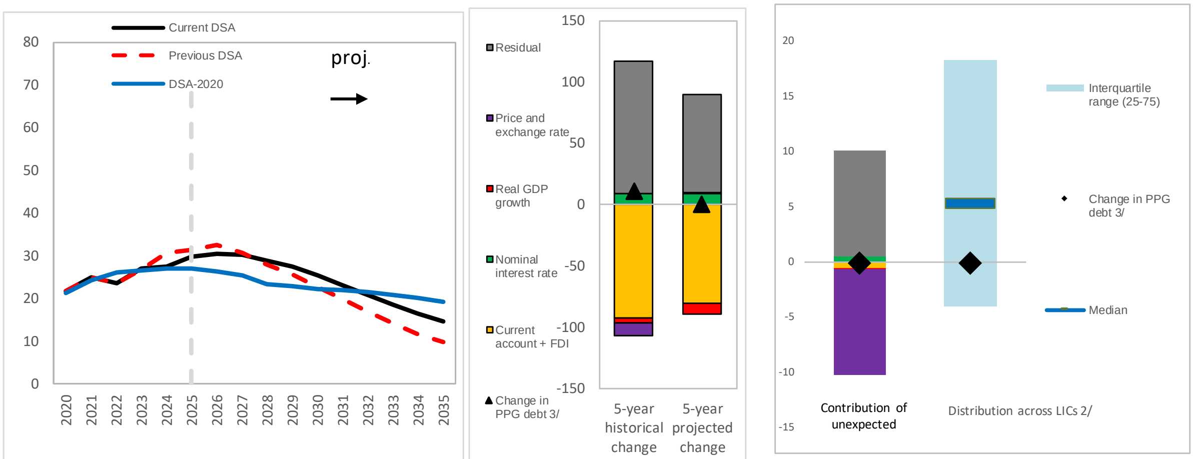
(In Percent)

	Projections 1/										
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
						PV of Debt-to-GDP Ratio					
Baseline	**47**	**45**	**43**	**40**	**38**	**36**	33	31	30	28	28
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	**47**	**49**	**50**	**51**	**53**	**54**	**55**	**56**	**57**	**58**	**60**
A2. Alternative Scenario : Climate change	**49**	**49**	**48**	**47**	**47**	**47**	**46**	**45**	**45**	**46**	**45**
B. Bound Tests											
B1. Real GDP growth	**47**	**49**	**51**	**50**	**50**	**50**	**49**	**49**	**49**	**50**	**52**
B2. Primary balance	**47**	**51**	**56**	**54**	**52**	**50**	**48**	**46**	**44**	**43**	**42**
B3. Exports	**47**	**53**	**65**	**63**	**61**	**59**	**56**	**53**	**49**	**46**	**44**
B4. Other flows 3/	**47**	**48**	**48**	**45**	**43**	**41**	**38**	**36**	34	32	31
B5. Depreciation	**47**	**50**	**46**	**43**	**40**	**36**	33	29	26	24	22
B6. Combination of B1-B5	**47**	**49**	**53**	**51**	**49**	**47**	**45**	**43**	**41**	**40**	**40**
C. Tailored Tests											
C1. Combined contingent liabilities	**47**	**62**	**59**	**57**	**55**	**53**	**51**	**49**	**47**	**46**	**45**
C2. Natural disaster	**47**	**57**	**55**	**54**	**53**	**51**	**49**	**48**	**47**	**47**	**46**
C3. Commodity price	**47**	**49**	**51**	**53**	**55**	**56**	**57**	**57**	**57**	**58**	**59**
C4. Market Financing	**47**	**45**	**43**	**40**	**38**	**36**	33	31	30	28	28
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
						PV of Debt-to-Revenue Ratio					
Baseline	261	243	226	214	200	186	164	155	147	141	137
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	261	261	266	272	278	283	273	279	285	291	296
A2. Alternative Scenario : Climate change	271	262	254	251	247	241	226	225	225	227	223
B. Bound Tests											
B1. Real GDP growth	261	262	267	264	260	255	240	241	244	248	254
B2. Primary balance	261	274	298	286	273	259	235	226	219	212	208
B3. Exports	261	286	346	334	321	306	276	260	244	230	219
B4. Other flows 3/	261	256	252	240	227	212	189	178	168	160	155
B5. Depreciation	261	270	247	228	209	189	161	146	131	119	108
B6. Combination of B1-B5	261	262	280	269	257	244	221	213	205	199	195
C. Tailored Tests											
C1. Combined contingent liabilities	261	333	314	302	289	275	250	241	233	227	223
C2. Natural disaster	261	308	294	285	275	264	242	237	232	230	229
C3. Commodity price	261	297	303	317	315	308	285	279	280	284	291
C4. Market Financing	261	243	226	214	200	186	165	155	147	140	136
						Debt Service-to-Revenue Ratio					
Baseline	84	67	52	47	33	33	34	34	32	29	28
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	84	67	61	63	53	55	58	63	66	68	69
A2. Alternative Scenario : Climate change	84	69	56	51	39	40	43	44	43	42	41
B. Bound Tests											
B1. Real GDP growth	84	71	61	59	47	47	50	53	55	55	57
B2. Primary balance	84	67	68	74	51	45	47	51	53	51	47
B3. Exports	84	67	54	52	38	37	41	44	42	39	37
B4. Other flows 3/	84	67	53	48	35	34	36	36	34	32	30
B5. Depreciation	84	65	53	51	36	35	36	35	32	30	28
B6. Combination of B1-B5	84	66	54	63	45	42	43	46	46	45	43
C. Tailored Tests											
C1. Combined contingent liabilities	84	67	97	72	50	45	52	58	60	55	50
C2. Natural disaster	84	70	82	66	48	45	51	55	57	54	51
C3. Commodity price	84	77	62	57	51	54	55	56	56	58	62
C4. Market Financing	84	67	52	47	34	34	35	35	32	29	27

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.

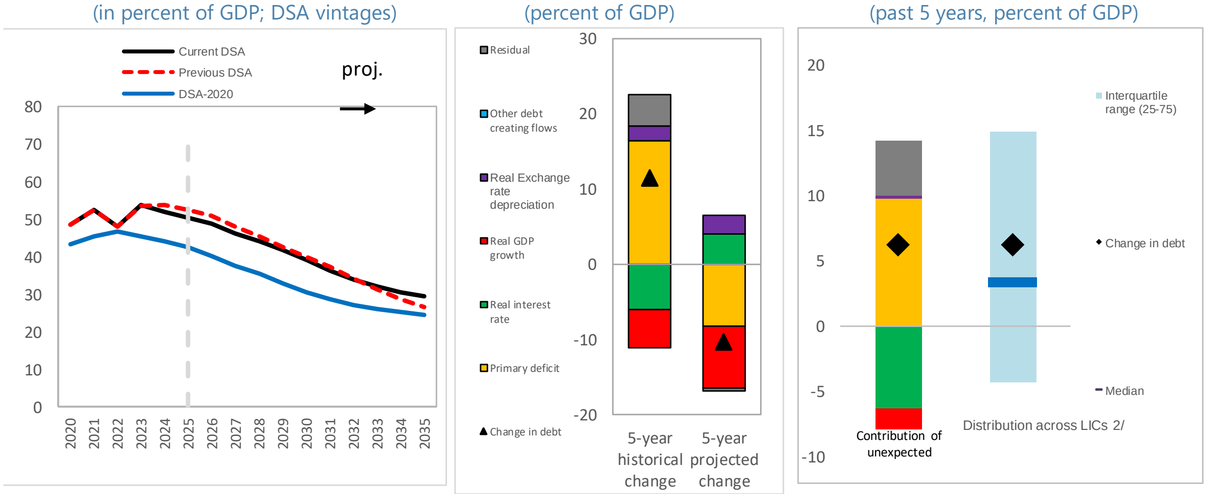
Figure 3. Papua New Guinea: Drivers of Debt Dynamics – Baseline Scenario

Gross Nominal PPG External Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



Public Debt

Gross Nominal Public Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



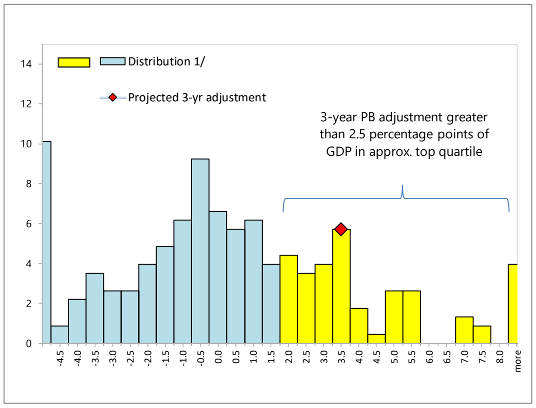
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

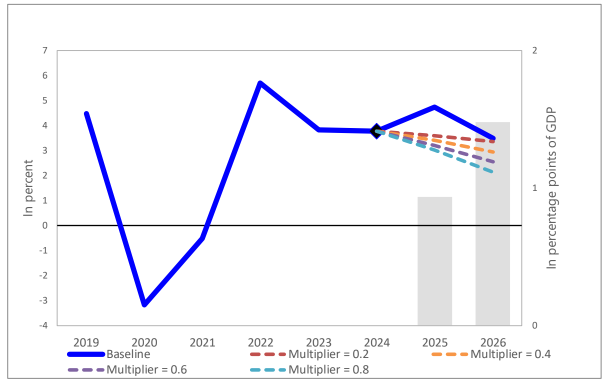
Figure 4. Papua New Guinea: Realism Tools

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



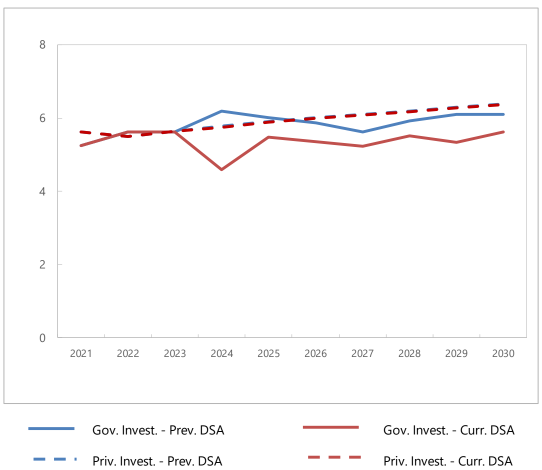
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

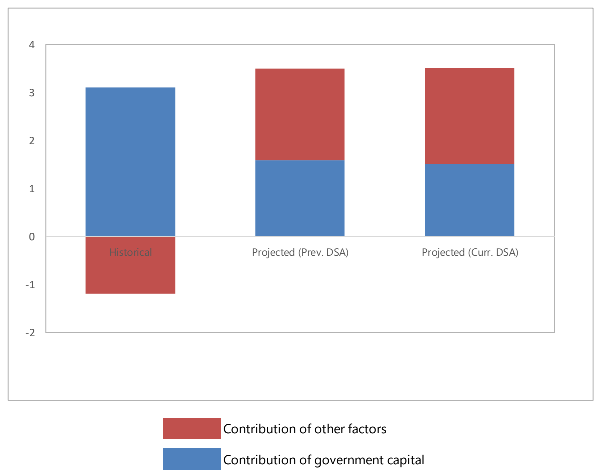


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



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



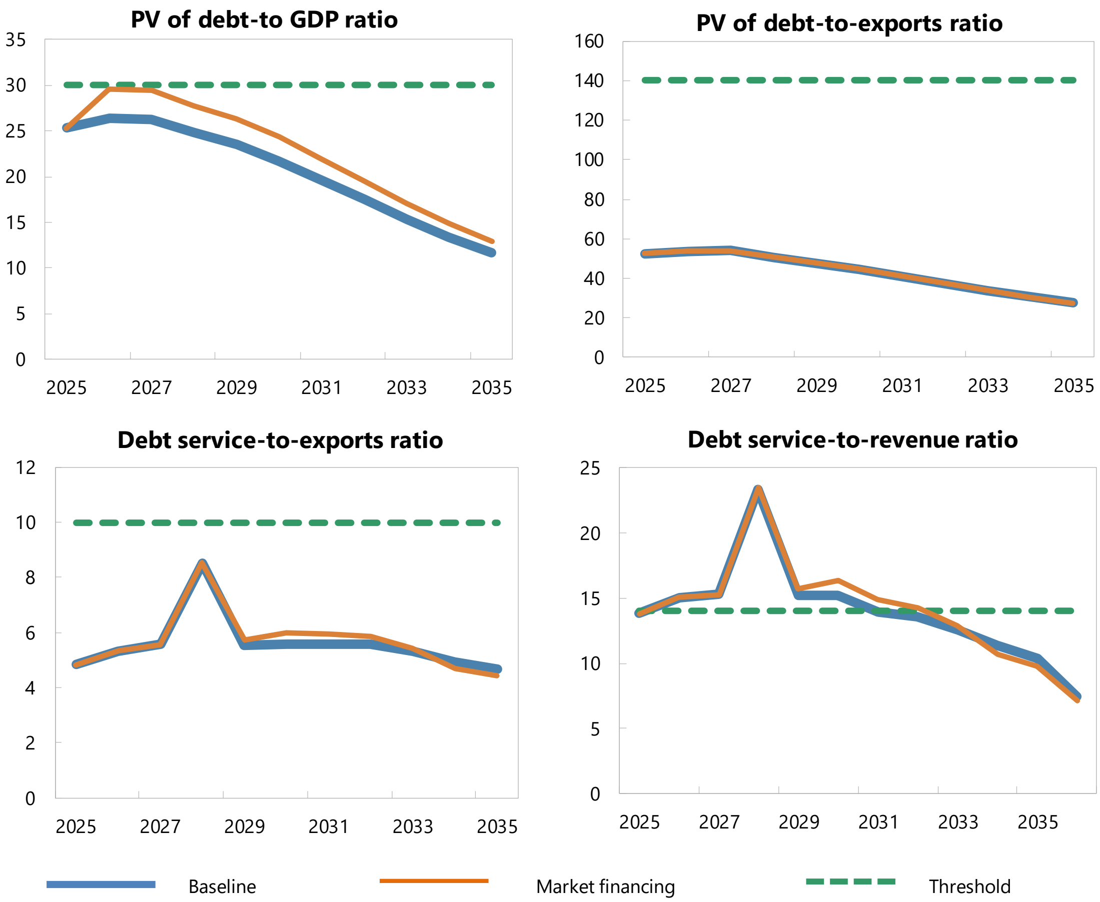
Sources: Country authorities; and staff estimates and projections.

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

	GFN 1/	EMBI 2/
Benchmarks	14	587
Values	15	428
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

May 29, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION, FOURTH REVIEWS UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND THE ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, REQUESTS FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, MODIFICATION OF A QUANTITATIVE PERFORMANCE CRITERION, AND FIRST REVIEW UNDER THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—WORLD BANK ASSESSMENT LETTER FOR THE RESILIENCE AND SUSTAINABILITY FACILITY

This update (dated April 17, 2025) to the RSF Assessment Letter—Papua New Guinea (dated November 12, 2024; Annex I) highlights relevant changes that have occurred since the issuance of the last Assessment Letter.

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

1. No updates since the last Assessment Letter.

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

2. The Government of Papua New Guinea (GoPNG) continues to undertake several reforms to enhance the country's resilience. These reforms include: (i) the National Internally Displaced Persons Policy, which defines the Government's responsibility for emergency shelters; (ii) the establishment of an independent National Emergency Management Agency; (iii) the approval of the Papua New Guinea Structural Engineering Standards amendment for earthquake loadings; and (iv) the development of a Bridges Manual for the Ministry of Transport. Collectively, these reforms aim to reduce vulnerability and strengthen resilience outcomes. Additionally, the National Disaster Centre is reviewing the Disaster Management Act 1985 to align it with modern approaches to disaster risk management. The Papua New Guinea Standards Council is advancing an update to the PNG Building Code to enhance seismic resilience. The updated provisions align with international best practice and incorporate the latest scientific understanding of seismic hazards. These changes collectively aim to reduce the vulnerability of new buildings to seismic hazards, improve life safety outcomes, and ensure the continuity of critical infrastructure services during and after major seismic events.

3. The Bank of Papua New Guinea (BPNG) through the Green Finance Centre (GFC) has been leading reforms to create an enabling environment for climate finance and transition to a green economy. In 2023, the Inclusive and Green Taxonomy of Papua New Guinea was issued. This framework categorizes and labels economic activities based on their environmental sustainability, including adaptation and resilience. It aims to mobilize financing to transition to a green economy. In March 2025, the GoPNG hosted a Green Finance Summit, which aligns with PNG's Green Finance Policy and Implementation Roadmap. This landmark event brought together senior government ministers, financial sector leaders, development partners, and private sector stakeholders from PNG, the Pacific, and international markets to discuss innovative climate finance solutions. At the Summit, GFC's 5-year strategy was launched, a green refinancing facility and a green guarantee facility were introduced, and key areas of focus on taxonomy, environment, social and governance (ESG), and thematic bonds were highlighted.

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

4. The National Climate Change (Management) Carbon Markets Regulation 2024 has been recently approved by the National Executive Council. The Regulation sets a broad framework for engaging in carbon markets effectively and provides an institutional mechanism to administer mitigation activities and carbon credits in compliance with the existing domestic regulations, such as the Climate Change Management Act. Additionally, the GoPNG is in the process of updating its Nationally Determined Contribution (NDC), which must be updated and submitted to the United Nations Framework Convention on Climate Change (UNFCCC) every five years.

5. PNG is strategically positioned to capitalize on international climate financing through the Green Climate Fund (GCF) Results-Based Payments (RBP) program. This is part of its broader commitment to reducing emissions from deforestation and forest degradation (REDD+). In 2024, the GCF approved an exceptional allocation for the RBP pilot window, allowing PNG to access RBPs. As part of the application process, a funding proposal has been prepared with support from FAO. It is currently at the final stage of stakeholder consultations and validation before being submitted to the GCF Secretariat for the GCF Board decision in June 2025.

D. Other Challenges.

6. No updates since the last Assessment Letter.

E. WB Engagement in the Area of Climate Change.

7. The World Bank, through the Partnership for Market Implementation (PMI), has carried out an assessment of the progress made by PNG to participate in international carbon markets effectively. The assessment identified policy, institutional and infrastructure gaps. It also outlined a roadmap for strengthening the enabling environment for PNG's participation in international carbon markets. In March 2025, the World Bank organized a workshop with key government stakeholders and development partners. The workshop aimed to validate the assessment results and identify and prioritize key next steps. The focus was on ensuring compliance with the requirements of Article 6 of the Paris Agreement.

8. The International Finance Corporation (IFC) is assisting the BPNG in establishing a conducive policy environment to manage risks and promote green finance. The primary areas of focus include developing technical screening criteria for key priority sectors within the PNG inclusive green finance taxonomy. They also involve exploring the role of capital markets in mobilizing private finance for sustainable development, and developing Environmental, Social, and Governance (ESG) standards to be adopted by commercial banks in PNG. These reforms support both climate change mitigation and adaptation efforts to strengthen resilience and reduce GHG emissions.

Annex I. RSF Assessment Letter – Papua New Guinea[1]

November 12, 2024

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.

[1] World Bank Assessment Letter for the Resilience and Sustainability Facility, November 2024.

While uncertainties remain about the full extent of climate change impacts, evidence shows PNG is facing substantial increases in climate- related risks.

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.[2] 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

4. 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.

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

6. 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.

[2] As of September 2024, PNG recorded 332 conflict-related deaths over the preceding 12 months (Armed Conflict Location and Event Data).

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

7. 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 CO_2 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).

8. 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

9. 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.

10. 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.

11. 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 CO2 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

June 13, 2025

We convey our authorities' deep appreciation for the close working relationship and engagement with Mr. Klein and his team during the fourth review mission of the Extended Credit Facility (ECF) and Extended Fund Facility (EFF), the first review of the Resilience and Sustainability Facility (RSF), and the Article IV consultation. We also wish to acknowledge the significant contribution of staff across all IMF departments working to deliver technical assistance to Papua New Guinea. **Our authorities share staff's assessment and remain committed to progressing policy reforms under the ECF/EFF and RSF arrangements.**

Strong program ownership

Our authorities have made further demonstrable progress under the IMF program since the last review. In the Fourth Review period, we have met all but one quantitative performance criteria and indicative target – a small value of external arrears arising from a legacy sovereign guarantee were outstanding at end-December 2024 and end-March 2025, but were cleared in April 2025. The 2021 State Guarantee Policy, adopted after this guarantee was made, limits the risk of external payment arrears occurring in the future.

The authorities' enduring commitment to macroeconomic reform will set the economy on a path towards more stable and sustainable growth. At end-May 2025, six out of eight structural benchmarks due had been fully or partially implemented. Most notably, the amendments to the Income Tax Act (ITA) were adopted by the parliament earlier this year. Reforming the ITA was a key pillar of our medium-term revenue strategy and required a significant amount of work to achieve political agreement and communicate the purpose of the amendments to the public. We request resetting the deadline for amending the Internal Revenue Commission (IRC) Act to set up a Board of oversight to end-July 2025, to allow sufficient time to build political consensus before submitting the IRC Act to parliament. The authorities also request to reset the deadline for appointing the Independent Commission Against Corruption (ICAC) oversight committee to end-September 2025; the recruitment process is underway, but more time is needed to ensure suitable candidates are selected. One RSF reform measure was also met.

Continued program ownership and performance has occurred against a backdrop of ongoing socio-economic frictions and political instability. Papua New Guinea is a Fragile and Conflict-affected State and the pace of reform is constrained by limited public sector capacity. The authorities are mindful of the need to build public trust and communicate carefully to secure ongoing social acceptability of the reform agenda. The authorities also see the IMF, including through the continued presence of a 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 authorities' commitment to achieving a balanced budget by 2027. The authorities are committed to achieving the deficit target of 2.6 percent of GDP for the 2025 fiscal year, despite setbacks in revenue collection and reconciliation due to the cyberattack on the IRC earlier this year.

Reforms implemented under the medium-term revenue strategy are expected to contribute to domestic revenue mobilization. The new dividend policy applied to the main state-owned enterprises (SOEs), the continued implementation of the Non-tax Revenue Administration Act, and the implementation of amendments to the ITA, are projected to yield more revenue over time. A planned review of corporate income tax expenditures, including the potential impact of incentives granted under special economic zones, will identify reform options to broaden the tax base and reduce inefficiencies. The authorities acknowledge the shortcomings identified by the recent Tax Administration Diagnostic Assessment Tool (TADAT) and have requested follow up technical assistance to support implementation of the recommendations in the TADAT report.

The authorities remain committed to improving the efficiency of government expenditure, with a view to prioritizing social spending on education, health and law and order. They welcome the IMF's forthcoming Public Investment Management Assessment, which will identify ways to improve the efficiency and effectiveness of capital spending. The authorities also continue to work on developing a plan to implement a treasury single account while being mindful of the potential impacts on the domestic financial system.

The authorities recognize that public debt reduction is essential – the medium-term debt strategy focuses on sustainable debt management practices to support Papua New Guinea's economic growth and development needs. They are grateful for staff's policy advice on ways to appropriately calibrate and implement a medium-term fiscal framework. A borrowing committee including the Department of Treasury and BPNG has been formed, to prepare for the maturity of the 2028 Eurobonds. Technical assistance from the IMF to enhance debt management capabilities has also been requested.

Monetary policy and exchange rate reforms

The transition towards kina convertibility is progressing well and the associated policy measures are bearing fruit. The crawl-like arrangement has seen the kina depreciate against the US dollar by 8 percent between end 2023 and end-March 2025. The exchange rate is still overvalued and we are considering switching to a crawl-like arrangement against a basket of currencies to address the overvaluation more efficiently. BPNG continues to actively intervene in the FX market to alleviate FX shortages. The resulting decline in the backlog of essential FX orders and associated wait times has been a welcome development for local and international businesses.

The BPNG has also been working effectively to modernize its monetary policy operations. The newly established Monetary Policy Committee held its second meeting in June and continues to monitor inflation trends closely. Reforms to improve liquidity management and monetary policy transmission are reducing excess liquidity in the system and encouraging domestic financial institutions to better manage liquidity needs. Looking ahead, the BPNG will develop a liquidity forecasting framework and continue to implement reforms to support the development of the local interbank market. The central bank is appreciative of the IMF's ongoing technical assistance, which will help with the calibration and sequencing of further reforms in the roadmap. The authorities remain committed to implementing the IMF Safeguards Assessment recommendations.

The authorities also welcome the recent IMF Financial Sector Stability Review (FSSR), which identified key reform priorities to ensure the soundness and resilience of the financial sector. The BPNG is working to operationalize the emergency liquidity assistance framework, following the 2024 amendments to the Central Banking Act, with technical assistance from the IMF.

Improving governance and fighting corruption

The recent mutual evaluation report (MER) by Asia/Pacific Group on Money Laundering found that Papua New Guinea's legislative framework was robust, but enforcement of the framework remained a substantial challenge. **The authorities are working to promptly address critical shortcomings in the effectiveness of the national AML/CFT framework.** The authorities have developed a strategic implementation plan to address the priority actions in the MER. The ICAC has also led establishment of the Anti-Money Laundering Joint Task Force (AMLJTF) and the Asset Recovery and Money Laundering Operations Committee (ARMLOC), to enhance inter-agency cooperation with other anti-corruption bodies, and to fast-track the investigation, prosecution, and litigation of financially motivated crimes.

The authorities remain committed to operationalizing the ICAC and strengthening the governance and transparency of SOEs. The recruitment of an ICAC oversight committee is underway, albeit with a delay, and the committee is expected to be established by end September 2025. A bilateral memorandum of understanding (MoU) between the ICAC and the BPNG's Financial Analysis and Supervision Unit was signed in May. The authorities have prioritized the establishment of the AMLJTF and the ARMLOC, given the pressing need to progress the recommendations of the MER.

Climate change adaptation

Papua New Guinea's geography makes the country highly vulnerable to the effects of climate change and frequently occurring natural disasters, which present longer-term challenges for government finances, the balance of payments, and external sector stability. Under the RSF, the authorities are working to integrate climate change adaptation considerations into public investment practices to shore up public finances. The authorities have incorporated climate-related disaster risk screening into the methodology for assessing new public investment projects, in preparation for the 2026 Budget. Upcoming reform measures will focus on integrating climate considerations into the public investment project cycle, and the preparation of a disaster risk financing strategy.

The authorities are working together with the IMF to explore options to scale up the provision of private and public climate finance to Papua New Guinea. The authorities, together with donor partners, held the first Green Finance Summit in March 2025, to promote sustainable development in Papua New Guinea and discuss innovative climate finance solutions. To facilitate the efficient allocation of capital in the economy, BPNG is operationalizing its Green and Inclusive Taxonomy, and developing supervisory guidelines for financial institutions on regulatory reporting of exposures in the transport, energy, and telecommunications sectors.

Other reform priorities

The authorities value staff's analysis on ways to enhance Papua New guinea's competitiveness and attractiveness to foreign investment. Moving towards more exchange rate flexibility and convertibility will help to enhance external competitiveness and attract foreign investment, and **the authorities recognize that more can be done to improve the local business environment, remove barriers to trade, and enhance existing export capacity.** They are also mindful of the need to preserve revenue integrity while establishing new special economic zones. The annex provides a solid set of reform measures for the authorities to consider as a starting point.

The authorities also wish to acknowledge the critical shortcomings highlighted by staff's Data Adequacy Assessment and the IMF's ongoing technical assistance to improve data quality. They are currently seeking resources to conduct a national household income and expenditure survey as soon as possible, but the National Statistics Office is focused on completing the first national census since 2011.

Concluding remarks

The authorities continue to press ahead with the reform agenda under the ECF/EFF and RSF arrangements. These reforms will strengthen Papua New Guinea's growth prospects and build external sector resilience. **The authorities request Board approval of the Fourth Review under the ECF and EFF Arrangements and the first review under the RSF arrangement, and all other associated proposals**.