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GRAY/20/2307

June 4, 2020

**Statement by Mr. von Kleist and Mr. Herold on Papua New Guinea
(Preliminary)
Executive Board Meeting 20/67
June 5, 2020**

We thank staff for the well written reports and Mr. Ray and Ms. Johnson for the insightful Buff statement. We support the authorities' request for a disbursement under the Rapid Credit Facility, given Papua New Guinea's urgent balance of payments need, which staff expects to be resolved within a year without major policy adjustments. Broadly concurring with staff's assessment, we have the following additional comments.

The authorities' strong commitment to the policies and reforms agreed to under the Staff Monitored Program remains of the essence to safeguard macroeconomic stability. We take note from the staff report that the SMP remains broadly on track – bearing in mind some disruptions caused by the COVID-19 pandemic. We positively acknowledge that important but overdue structural benchmarks were completed as prior actions for this RCF disbursement. Going forward, we call on the authorities to stay their course with prudent macroeconomic policies, to safeguard stability and push ahead with further economic and institutional reforms, to strengthen framework conditions for growth and thus facilitate a quick and strong economic recovery.

The main challenge for monetary policy is to close the backlog of foreign exchange orders and thus to continue restoring exchange rate flexibility and to eliminate the overvaluation of the Kina. Once exchange rate flexibility has been restored, steps should be taken to strengthen liquidity management and the effectiveness of money market operations through a functioning interbank market.

As the crisis abates, it will be of the essence to reactivate fiscal consolidation efforts. We welcome the authorities' ambition to accommodate crisis-related spending needs by adjusting the composition of the budget. In this regard, we notice the substantial increase in the wage bill following the impact of the COVID-19 pandemic.

Could staff provide additional background?

Implementing prudent fiscal policies and adhering to commitments under the SMP remain of fundamental importance for debt sustainability. Given the substantial downside risks to the economic outlook, we recommend to prepare adequate and swiftly implementable fiscal contingency measures, to ensure debt sustainability also in case of a more detrimental or protracted impact of the COVID-19 pandemic.

The Fund would under current assumptions shoulder the major share of financial support to Papua New Guinea. Not least given the country's vulnerable debt situation, and the proposal to fully utilize the temporarily increased RCF access limits, risks to the Fund appear elevated. Against this background, and to underscore the catalytic nature of Fund arrangements, we encourage the authorities to actively seek further multilateral and bilateral financing on concessional terms.

Could staff give an update on financing prospects in the case of a more profound negative impact of the current crisis?

We highly welcome the authorities' commitments to ensure transparency and accountability of crisis-related expenditure. We are looking forward to staff's detailed assessment in the following staff reports, also incorporating the findings of the authorities' consolidated report on procurement and the independent audit.