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GRAY/20/2309

June 4, 2020

**Statement by Mr. Ronicle and Ms. Freeman on Papua New Guinea
(Preliminary)
Executive Board Meeting 20/67
June 5, 2020**

We thank staff for the succinct papers, and Mr. Ray and Ms. Johnson for their helpful buff statement. **We support Papua New Guinea's request for emergency financing the Rapid Credit Facility (RCF) in the amount of SDR 263.2 million (100 per cent of quota).** This request is appropriate given urgent balance of payments needs and the significant economic challenges facing Papua New Guinea as a result of the COVID-19 pandemic.

Papua New Guinea commenced a Staff Monitoring Program in March which focuses on the need to rebalance macroeconomic policies and pursue a strong reform agenda, particularly to address limited fiscal space and debt risks; the COVID-19 pandemic, with its impact on commodity prices and tourism, has brought the economy's existing vulnerabilities to the fore and created an urgent financing gap. We welcome the authorities' swift containment measures to date and the stimulus provided, particularly to support liquidity and credit provision. *We would welcome staff thoughts on any trade-off between supporting domestic demand in the near-term through interest rate cuts (not least given the weak transmission mechanism) and the longer-term SMP goal of greater currency convertibility and exchange rate flexibility.* We support this request for urgent IMF financing, supported by additional financing from the World Bank and ADB; and we note the request for debt relief under the G20 initiative. We note significant additional financing needs and hope that these measures can catalyze further international finance in order to preserve Papua New Guinea's limited international reserves. We note Staff's assessment that there is a high risk of debt distress but that capacity to repay the fund remains adequate in the longer-term.

We are deeply concerned about the impact of the pandemic on health and poverty and we encourage the authorities to focus on the provision of social safety nets in their response. As the buff highlights, health infrastructure is limited. Health outcomes remain low when compared to regional peers (ranked 0.38 on the World Bank's Human Capital Index) and Papua New Guinea has

one of the highest stunting rates in the world. Without adequate investment and protection, COVID could set back development further and push up poverty rates. *Could staff comment on the extent of any social safety net in Papua New Guinea, its ability to handle recent developments and reach the most vulnerable, and any actions that may be required or advised? We are also concerned about the ability to manage an outbreak, if one occurred, and would appreciate staff's assessment of how the authorities can invest in surveillance and the health response in the short-term, or seek support for such efforts.* We also encourage staff and the authorities to consider what further actions can be taken if the recovery does not commence as assumed in 2021.

We commend the authorities' commitment to ensure that crisis resources are used transparently and effectively. In particular, we welcome commitments to undertake a new safeguards assessment, to ensure transparency around crisis-related public procurement contracts and to publish an audit of COVID-19 related public expenditures. Going forward, we hope to see further measures to strengthen governance and transparency, in particularly within SOE management, as we highlighted in our March gray. This will be important to maintaining debt sustainability.

We welcome the commitment to continue with reforms under the SMP, as soon as the recovery allows. We note the leadership shown through the completion of two prior actions ahead of this RCF request. Priorities remain economic diversification, fiscal consolidation, delivery of the MTRS, SOE reforms, and strengthening of governance and the AML/CFT framework.