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GRAY/20/2304

June 4, 2020

**Statement by Mr. El Qorchi and Mr. Alavi on Papua New Guinea
(Preliminary)
Executive Board Meeting 20/67
June 5, 2020**

We thank staff for their well-written report and Mr. Ray and Ms. Johnson for their insightful Buff statement. Since we agree with the thrust of staff appraisal, we will restrict our comments to the following:

The COVID-19 pandemic has hit Papua New Guinea very hard impacting its fragile economy, worsening fiscal and external outlook, and challenging the authorities' reform and policy efforts under the SMP. The authorities have taken swift measures to limit the impact of the health shock on the population and minimize its economic consequences. Support from the Fund under RCF will help address the urgent balance of payments need and finance a large fiscal gap created by the shock. It will also help catalyze additional support from other multilateral and bilateral donors. Staff indicates that PNG's public debt is sustainable and there is adequate capacity to repay the Fund. Against this backdrop, we support the authorities' request for a disbursement under the RCF equivalent to 100 percent of quota (SDR 263.2 million or about US\$358 million).

We support the authorities' fiscal measures to combat the crisis, including their efforts to shift budget resources into healthcare and support vulnerable household and affected businesses. We commend their commitment to the principles of good governance to ensure that COVID-19 related resources are managed efficiently and transparently. In this regard, we note positively that prior actions to strengthen transparency and accountability ahead of the request for RCF have been successfully implemented. We also welcome the commitments by the Bank of Papua New Guinea (BPN) to undergo an IMF safeguards assessment and to provide IMF staff with access to its most recently completed external audit reports.

Given that the PNG is at high risk of debt distress, strong commitment to prudent fiscal policies remains essential. In this context, we are encouraged by the authorities' intention to resume expenditure restraint and revenue mobilization efforts aimed at achieving a debt-to-GDP ratio target of 30 percent over the long-term.

We consider the BPN's measures to support financial sector as appropriate. In the meantime, we agree with staff that measures to support the banking sector should be implemented with great caution and strict adherence to prudential standards.

Finally, we commend the authorities for their continued commitment to the goals of the SMP despite the challenges created by COVID-19 pandemic. We are encouraged by authorities' determination to maintain their re-established positive engagement with the Fund and remain firmly committed to well-targeted structural reform and policy efforts going forward.

With this, we wish the authorities continued success.