

**EXECUTIVE  
BOARD  
MEETING**

EBS/22/38  
Supplement 1

May 27, 2022

To: Members of the Executive Board

From: The Secretary

Subject: **Papua New Guinea—Staff Report for the 2022 Article IV Consultation and Review of the Staff-Monitored Program—Informational Annex**

Board Action:	Executive Directors' <b>consideration</b> (Formal)
Tentative Board Date:	<b>Monday, June 13, 2022</b>
Publication:	Yes*
Questions:	Mr. Saadi Sedik, APD (ext. 34036) Ms. Novta, APD (ext. 34998) Mr. Raman, APD (ext. 34689)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	After Board Consideration—Asian Development Bank, World Trade Organization

**\*Unless an objection from the authorities is received prior to the conclusion of the Board's consideration, the document will be published.**





# PAPUA NEW GUINEA

## STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION AND REVIEW OF THE STAFF MONITORED PROGRAM— INFORMATIONAL ANNEX

May 25, 2022

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

### CONTENTS

FUND RELATIONS _____	2
RELATIONS WITH THE PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTER ___	5
INFORMATION ON THE ACTIVITIES OF OTHER IFIs _____	7
STATISTICAL ISSUES _____	8

## FUND RELATIONS

(As of April 30, 2022)

### Membership Status

Joined: October 9, 1975; Article VIII

### General Resources Account

	<u>SDR Million</u>	<u>Percent Quota</u>
Quota	263.20	100.00
Fund holdings of currency	262.76	99.83
Reserve position in Fund	0.45	0.17

### SDR Department

	<u>SDR Million</u>	<u>Percent Allocation</u>
Net cumulative allocation	377.76	100.00
Holdings	259.00	68.56

### Outstanding Purchases and Loans

	<u>SDR Million</u>	<u>Percent Quota</u>
RCF Loans	263.2	100.00

### Latest Financial Arrangements

<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR million)</u>	<u>Amount Drawn (SDR million)</u>
Stand-by	3/29/2000	9/28/2001	85.54	85.54
Stand-by	7/14/1995	12/15/1997	71.48	35.34
Stand-by	7/31/1991	9/30/1992	26.36	0.00

### Projected Payments to Fund<sup>1</sup>

(SDR million; based on existing use of resources and present holding of SDRs):

	<u>Forthcoming</u>				
	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>
Principal				26.32	52.64
Charges/interest	0.37	0.59	0.59	0.59	0.59
<b>Total</b>	<b>0.37</b>	<b>0.59</b>	<b>0.59</b>	<b>26.91</b>	<b>53.23</b>

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

### Safeguards Assessments

The first Safeguards Assessment of the Bank of Papua New Guinea (BPNG) was completed. The assessment found that the Central Banking Act requires amendments to sufficiently protect the

BPNG's financial, personal, and institutional autonomy and enhance governance arrangements. Such amendments remain necessary after the 2021 review of the Act. While transparency is supported by compliance with International Financial Reporting Standards (IFRS), audit arrangements should be improved to safeguard the external auditors' independence and align internal audit to international standards. The internal control system is being strengthened, including through the establishment of a risk management function. Closer engagement of the BPNG's oversight bodies over the ongoing initiatives is needed to ensure timely implementation.

### ***Exchange Rate Arrangement***

Papua New Guinea's de jure exchange rate arrangement is "floating". 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. Since November 2020, the exchange rate has stabilized within a two percent band against the US dollar. Accordingly, the de facto exchange rate arrangement was reclassified to "stabilized" from crawl-like, effective November 3, 2020. The BPNG publishes the intervention data in its annual report and semi-annual monetary policy statement.

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 also maintains the following multiple currency practices (MCPs) subject to Fund approval under Article VIII, Section 3: an MCP arising from the potential spread deviation of more than 2 percent between the rates set by BPNG for its FX transactions with the government and embassies, and the rates used by AFEDs in transactions with their clients.

### ***Article IV Consultations***

The 2019 Article IV consultation discussions were held on October 28–November 9, 2019. It was concluded by the Executive Board on April 6, 2020 (IMF Country Report No. 20/95). Papua New Guinea is on the standard 12-month consultation cycle.

### ***TA from Headquarters***

**FAD:** In 2020, missions were conducted on IPSAS Cash Reporting, IRC external governance, Taxpayer service implementation, IRC organization design and IT tender evaluation support. Joint FAD/PFTAC mission on MTRS update and review were conducted in September and October 2020 and January–February 2021. In April 2021, TA was provided on the rewrite of Income Tax Act and Tax modeling. In December 2021, a mission on revenue administration program was carried focused on further development and introduction of new organizational structure for IRC.

**LEG:** A mission in September 2018 assisted in planning legislative reforms for the MTRS. In 2020 (February to March), a virtual mission was conducted on Institutional and Governance Review of the Internal Revenue Commission and PNG Customs

**MCM:** A mission in August 2018 delivered technical assistance in liquidity forecasting and management, and foreign exchange operations. Missions in December 2017 and February 2018 delivered TA on banking supervision.

**STA:** TA was provided on government finance statistics (January and September 2020); national accounts and price statistics (February 2020); a remote TA on Balance of Payments Statistics/Direct Investment (October 2020) and a remote TA on External Sector Statistics (February 2022). In January 2022 a virtual technical assistance mission was conducted on public sector debt statistics.

### ***Resident Representative***

The Regional Resident Representative Office for Pacific Island Countries based in Suva, Fiji was opened on September 13, 2010 and the office covers Fiji, Kiribati, Marshall Islands, Micronesia, Nauru, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu. Mr. Neil Saker is the current resident representative.

The Fund is in the process of opening a Resident Representative Office in Port Moresby.

# RELATIONS WITH THE PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTER

(As of April 2022)

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, the European Union, Korea, New Zealand, Canada 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. Technical assistance to PNG suffered due to COVID 19.

## A. Public Financial Management

PFTAC led a multilateral mission in July 2019 with colleagues from UNDP, World Bank, JICA, and the ADB for a full Public Expenditure Financial Accountability (PEFA) diagnostic assessment of the country's PFM systems, which was published in 2020. In September 2020, a remote mission helped formulate a sequenced and prioritized PFM reform roadmap, building on the findings of the 2020 PEFA assessment and taking on board capacity constraints. The government remains committed to the broader PFM roadmap.

## B. Tax Administration and Policy

The Department of the Treasury, with FAD assistance, has developed a 2018-2022 Medium-Term Revenue Strategy (MTRS) of which a comprehensive Revenue Mobilization Framework is a key element. FAD missions<sup>1</sup> provided advice on the MTRS framework and content. PFTAC missions<sup>2</sup> facilitated the design of a new corporate plan, design and monitoring unit, taxpayer services unit and a large taxpayer office. Funding to support PNG's MTRS implementation had been sourced through the multi-lateral Revenue Mobilization Trust Fund (RMTF) and included the placement of an IMF resident advisor in Port Moresby (August 2018-June 2021). Support through the RMTF ended in June 2021, with continued capacity development provided through PFTAC. In December 2021, a PFTAC mission focused on further development and introduction of new organizational structure for IRC.

## C. Financial Sector Regulation and Supervision.

In 2018 PFTAC and Bank PNG initiated the Supervision Framework Enhancement Program (SFEP), incorporating a Supervision Framework Development strategy and a TA plan. The SFEP covers

<sup>1</sup> Cotton (August 2017) and Baunsgaard (September 2017) provided advice on the MTRS framework and content.

<sup>2</sup> PFTAC missions in July 2017, December 2017, and September 2018 (STX McNeil) facilitated the design of a new corporate plan, design and monitoring unit, taxpayer services unit and a large taxpayer office.

development and enhancement of risk rating; supervisory action planning; on-site examination; financial analysis; and a review and update of legislation and prudential standards. The SFEP with Bank PNG has been successfully running for three and a half years, with significant development of Bank PNG's risk-based supervision (RBS) framework, in risk rating and supervisory action planning, and on-site examination and off-site analysis capabilities. In 2021, PFTAC provided TA to review and develop 11 prudential standards including consolidated supervision. The report was completed in August 2021.

## **D. Economic and Financial Statistics**

Support for Real Sector Statistics has been provided in close collaboration with the Australian Bureau of Statistics (ABS). ABS has provided TA on data collection issues including business and household surveys, with temporary repeated secondments of ABS staff to the PNG National Statistics Office (NSO). PFTAC provides on-the-job training and improvement on the production system. Further PFTAC TA on real sector statistics is scheduled for FY23. Government finance statistics and public sector debt statistics TA are supported by PFTAC and the Data for Decisions (D4D) Trust Fund. External sector statistics continue to be supported by the Japan Administered Account for Selected IMF Activities (JSA) for the Asia-Pacific region through October 31, 2023.

## **E. Macroeconomic Analysis**

In January 2019, the Department of Treasury hosted an interagency workshop with participants from the Department of Treasury, the Bank of Papua New Guinea, and the National Statistics Office on Economic and Fiscal Forecasting which was facilitated by the PFTAC macro advisor.

In May 2021, a three-week Financial Programming course was conducted by ICD and PFTAC, with the aim of this being part of the long-term adoption of a new Financial Programming model, with further missions planned.

## **F. Public Debt Management**

During October and November 2021, a two-week regional training course provided capacity development on the fundamentals of debt reporting and monitoring. Department of Treasury officials attended the training and gained understanding of the benefits and key requirements of publishing reliable, comprehensive, timely, and accurate debt data.

In November 2021, PFTAC delivered a remote training on financial and loan analysis to Papua New Guinea Department of Treasury officials. Papua New Guinea has access to both a domestic debt market and external financing and CD of officials in financial and loan analysis is part of the foundations for improving debt management practices. The training focused on building capacity in financial and market concepts, debt and liability management operation instruments, loan structures and cashflows, and portfolio risk indicator analysis. Enhancing the foundational knowledge of officials is also fundamental towards Papua New Guinea's aim to raise overall Debt Management Performance Assessment (DeMPA) scores. The DeMPA is a diagnostic of government debt management practices and institutions.

## 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>

## STATISTICAL ISSUES

(As of April 2022)

<b>I. Assessment of Data Adequacy for Surveillance</b>
<p><b>General:</b> Data provision has some shortcomings, but data are broadly adequate for surveillance. Most affected areas are national accounts, fiscal accounts, and balance of payments.</p>
<p><b>National Accounts:</b> The accuracy and reliability of the statistics are affected by inadequate source data and lagged release dates. Due to management and capacity constraints, GDP data is released with a lag of two years. In November 2021, the NSO released GDP for 2019. To assist the NSO in addressing these issues, PFTAC and ABS agreed on a coordinated approach to TA. ABS addressed the timely compilation and publication of GDP figures, while PFTAC focused on the steady improvement of data and methodology. Nevertheless, to increase user confidence in the NSO, proactive management and regular stakeholder engagement must improve.</p>
<p><b>Price Statistics:</b> The NSO currently disseminates a quarterly consumer price index, with expenditure weights from the 2009–10 Household Income Expenditure Survey. These weights should ideally be updated. Producer price indexes are not compiled.</p>
<p><b>Government Finance Statistics (GFS):</b> The Department of Treasury annually compiles and reports GFS data for the budgetary central government (BCG) to the IMF, making PNG a regular reporter, although coverage and timeliness could improve. Central government tax revenue, nontax revenue, and public expenditure data are deficient. Development budget expenditures and the utilization of grants and project loans are recorded with long lags, and limited records on the use of trust accounts are available. Tax revenues collected by authorities (extrabudgetary units of the central government) are generally not reflected in the central government’s financial information. While interest payment records are accurate, there are timing issues regarding the recording of interest on discounted securities. Even though compiling, reconciling and disseminating public sector debt statistics and government guarantees has improved challenges remain in debt instrument and institutional coverage. These weaknesses contribute to discrepancies in financing between estimates from monetary and debt data and those derived from fiscal records. Financial balance development remains a priority to support better decision making for fiscal policy and fiscal sustainability. Papua New Guinea continue to benefit from technical assistance and regional capacity building initiatives through the PFTAC and Data for Decisions (D4D) Trust Fund.</p>

**Monetary and Financial Statistics:** Monetary data are now being produced and reported to STA on a regular basis. Progress has been achieved by the BPNG in many areas of the collection, compilation, and dissemination of monetary and financial statistics (MFS), leading to the introduction of the standardized report form (SRF) for the central bank, other depository corporations (ODCs), and the other financial corporations (OFCs). A 2013 TA mission introduced general insurance companies into the institutional coverage of OFCs and an improved SRF for OFCs. Most of the monetary statistics published in *International Financial Statistics (IFS)* are currently aligned with the *Monetary and Financial Statistics Manual and Compilation Guide (MFSMCG)*.

**Financial sector surveillance:** In the area of financial soundness indicators (FSIs), the BPNG has compiled selected FSIs for deposit takers to support the financial sector assessment. BPNG currently reports thirteen core financial soundness and eight additional indicators for deposit takers and real estate markets to STA, with quarterly data availability starting in 2008Q4 and in line with the 2019 *FSI Compilation Guide*. However, no FSIs are reported on other sectors such as other financial corporations, nonfinancial corporations, and households. Papua New Guinea reports data on several series indicators of the Financial Access Survey (FAS) including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

**External Sector Statistics:** PNG's annual balance of payments data up to 2018 are disseminated on the IMF's website. IIP data are not available. A Remote TA mission was conducted in February 2022 to improve the quality of external sector statistics (ESS). The mission conducted training to Bank of Papua New Guinea staff on compiling balance of payments statistics in line with the BPM6 framework and provided guidance on how to address critical data gaps, particularly in sectors with large cross-border transactions such as the liquefied natural gas project, mining sector, and deposit taking corporations. Significant effort is required on the part of the authorities to implement the recommendations of the recent and previous TA Missions to improve the quality, coverage, periodicity and timeliness of ESS.

## II. Data Standards and Quality

PNG began to participate in the General Data Dissemination System in 2012. PNG has not yet implemented the recommendations of the enhanced GDDS (e-GDDS) by launching a National Summary Data Page (NSDP).

## III. Reporting to STA

PNG last reported GFS for publication in *Government Finance Statistics Yearbook* and *IFS* for 2017, covering only the budgetary central government. Monetary data are reported to STA for publication in *IFS* on a regular monthly basis. BOP data for 2018 were reported to STA for publication in *Balance of Payments Yearbook* and *IFS*. National accounts data for 2006-13 were reported to STA for publication in *IFS*.

## Papua New Guinea: Table of Common Indicators Required for Surveillance

(As of May, 2022)

	Date of Latest Observation	Date Received	Frequency of Data <sup>1</sup>	Frequency of Reporting <sup>1</sup>	Frequency of Publication <sup>1</sup>
Exchange Rates	1/2022	3/1/2022	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>2</sup>	03/2022	05/06/2022	M	M	M
Reserve/Base Money	03/2022	05/06/2022	M	M	M
Broad Money	03/2022	05/06/2022	M	M	M
Central Bank Balance Sheet	03/2022	05/06/2022	M	M	Q
Consolidated Balance Sheet of the Banking System	11/2021	01/2022	M	M	Q
Interest Rates <sup>3</sup>	12/2021	01/2022	M	M	M
Consumer Price Index	12/2021	02/31/2022	Q	Q	Q
Revenue, Expenditure, Balance and Composition of Financing <sup>4</sup> —General Government <sup>5,8</sup>	N/A	N/A	N/A	N/A	N/A
Revenue, Expenditure, Balance and Composition of Financing <sup>4</sup> —Central Government	12/2021	4/14/2022	A	A	A
Stocks of Central Government and Central Government-Guaranteed Debt <sup>6</sup>	12/2021	4/14/2022	Q	A	A
External Current Account Balance	Q2 2019	11/28/2019	Q	Q	Q
Exports and Imports of Goods and Services	Q2 2019	11/28/2019	Q	Q	Q
GDP/GNP	2019	11/04/2021	A	A	I
Gross External Debt	2018	07/03/2018	Q	A	A
International Investment Position <sup>7,8</sup>	N/A	N/A	N/A	N/A	N/A

<sup>1</sup> Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); and Not Available (N/A).

<sup>2</sup> Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

<sup>3</sup> Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.

<sup>4</sup> Foreign, domestic bank, and domestic nonbank financing.

<sup>5</sup> The general government consists of the central government (budgetary funds, extra-budgetary funds, and social security funds) and state and local governments.

<sup>6</sup> Including currency and maturity composition.

<sup>7</sup> Includes external gross financial asset and liability positions vis-à-vis nonresidents.

<sup>8</sup> Lack of capacity prevented the authorities from providing the data.