

**FOR
AGENDA**

SM/06/29
Correction 1

February 9, 2006

To: Members of the Executive Board

From: The Secretary

Subject: **Papua New Guinea—Staff Report for the 2005 Article IV Consultation**

The attached factual corrections to SM/06/29 (1/25/06) have been provided by the staff:

Page 26, under Exchange Rates, line 2, column 5: for “0.3235” read “0.3230”

Page 54, under Exchange Rates, line 2, last column: for “0.3225” read “0.3230”

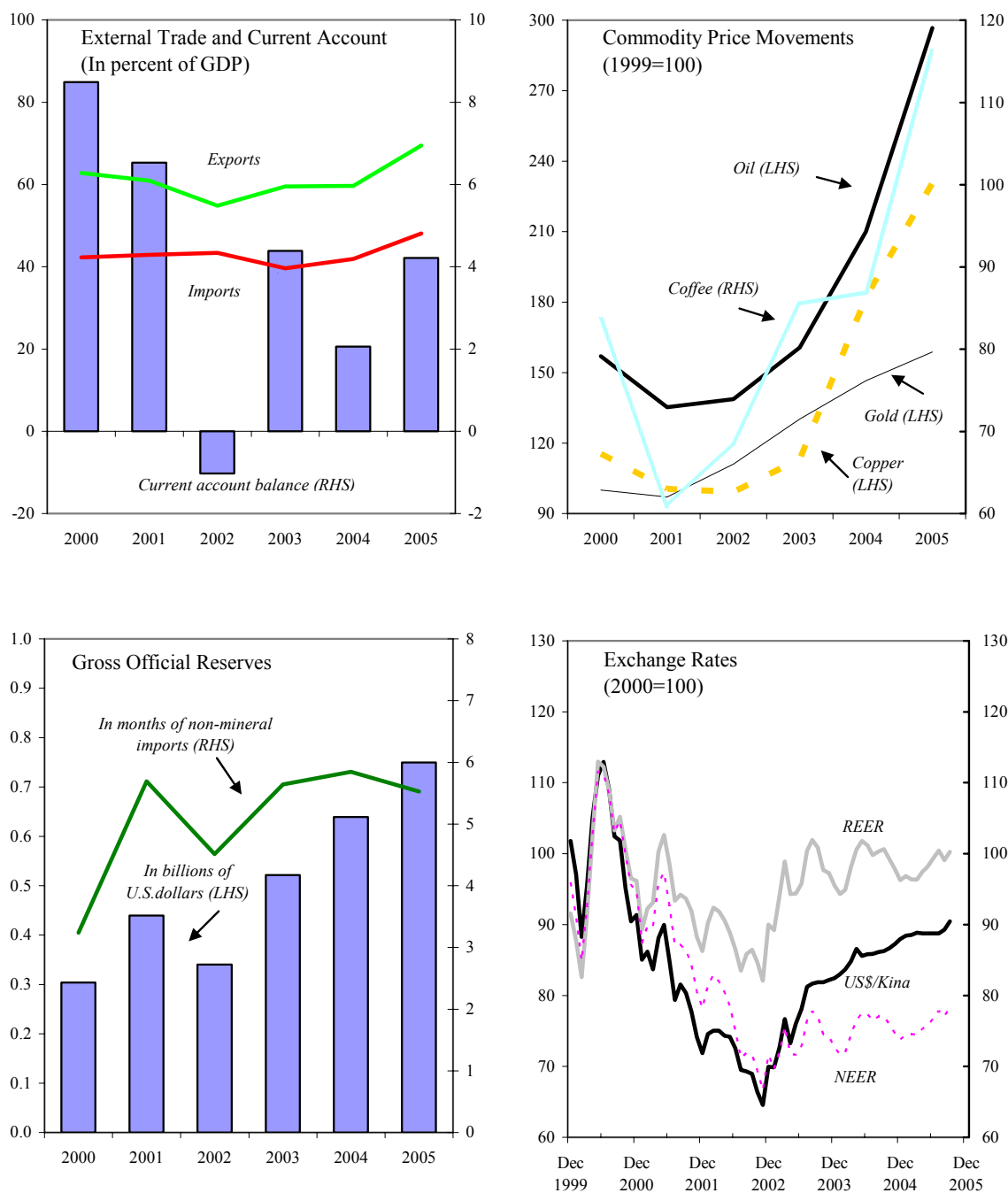
Questions may be referred to Ms. Creane, APD (ext. 37294).

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (2)

Other Distribution:
Department Heads

Figure 4. Papua New Guinea: External Economic Indicators, 2000-2005



Sources: Data provided by the Papua New Guinea authorities; IMF, *Information Notice System* and *World Economic Outlook*; and Fund staff estimates.

Table 1. Papua New Guinea: Selected Economic Indicators, 2001–06

Nominal GDP (2004): US\$4.0 billion
 Population (2004): 5.6 million
 GDP per capita (2004): US\$617
 Quota: SDR 131.6 million

	2001	2002	2003	2004	2005 Est.	2006 Proj.
Real sector (percent change)						
Real GDP growth 1/	-0.1	-0.2	2.9	2.9	3.0	3.5
Mineral	-10.4	-15.9	10.2	-0.9	-0.7	6.2
Nonmineral	1.9	2.5	1.9	3.5	3.5	3.2
CPI (annual average)	9.3	11.8	14.7	2.1	1.0	2.4
Central government budget (percent of GDP)						
Revenue and grants	29.7	27.8	28.4	31.3	28.0	27.7
Expenditure and net lending	33.2	31.8	29.6	29.8	25.2	27.3
Overall balance, cash basis (including grants) 2/	-3.9	-5.3	-1.6	1.1	2.7	0.4
Domestic financing (net) 3/	0.9	6.1	3.7	0.5	-1.0	0.4
External financing (net)	3.0	-0.9	-2.1	-1.6	-1.7	-0.8
Money and credit (end-period percentage change)						
Domestic credit	-12.3	20.4	-8.1	1.3	-1.0	24.0
Net credit to government	-26.1	80.3	-10.6	7.2	-24.7	42.8
Credit to the private sector	-1.2	-6.3	-4.3	-2.2	19.9	15.0
Broad money	1.9	4.2	-3.3	15.4	14.9	10.0
Interest rate (182-day T-bills; end-period) 4/	12.4	10.9	18.7	3.1	4.0	6.0
Balance of payments (millions of U.S. dollars)						
Exports, f.o.b.	1,878	1,646	2,153	2,554	3,352	3,714
Imports, c.i.f.	-1,321	-1,301	-1,435	-1,794	-2,321	-2,600
Current account (including grants)	201	-31	159	88	203	239
(In percent of GDP)	6.5	-1.0	4.4	2.1	4.2	4.6
Overall balance	66	-100	184	184	171	51
Reserves and external debt (end-period; millions of U.S. dollars)						
Net international reserves	331	224	398	575	749	800
(In months of nonmining imports, c.i.f.)	4.3	3.0	4.3	5.3	5.5	5.5
Gross international reserves	440	340	521	639	750	801
(In months of nonmining imports, c.i.f.)	5.7	4.5	5.6	5.8	5.5	5.5
Public external debt-service-ratio (percent of G&S exports) 5/	7.9	7.9	7.5	8.7	6.0	3.1
Public external debt-to-GDP ratio (in percent) 5/	48.7	51.5	44.1	34.5	27.3	24.9
Exchange rates						
US\$/kina (period-average) 4/	0.2964	0.2573	0.2814	0.3104	0.3217	...
US\$/kina (end-period) 4/	0.2658	0.2488	0.3000	0.3200	0.3230	...
Nominal GDP (millions of kina)	10,396	11,657	12,858	13,790	15,143	16,117

Sources: Data provided by the Papua New Guinea authorities; and Fund staff estimates and projections.

1/ Based on new official national account estimates (1998 prices).

2/ Measured from below-the-line in the fiscal accounts. Staff projections for 2005–06.

3/ Includes changes in check float.

4/ Figures for 2005 are as of end-October.

5/ Includes central government, Bank of Papua New Guinea, and statutory authorities.

export receipts along with a gradual restoration of confidence in economic management. Gross international reserves are expected to close 2005 at 5.5 months of non-mineral imports. External competitiveness appears adequate, given increased non-mineral export volume and a relatively stable share of total Papua New Guinea's exports in total world exports.

The authorities have taken steps to improve public sector efficiency and the investment environment, but overall progress in implementing structural reform has been slow. Positive steps have been made through the adoption of stricter controls on recurrent public expenditure and some reduction in the wage bill. However, advancement of the broader reform of the public sector was slow, particularly in revenue administration and provincial government operations. Movement on infrastructure investment and land reform also was limited and privatization stalled. The financial system overall remains healthy. The financial condition of the government-owned Rural Development Bank has improved somewhat, but it remains to be seen whether sufficient measures are in place to avoid a return to past financial difficulties.

Executive Board Assessment

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Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Papua New Guinea: Selected Economic Indicators, 2001-05

	2001	2002	2003	2004	2005
Real sector (percent change)					
Real GDP growth	-0.1	-0.2	2.9	2.9	3.0
Mineral	-10.4	-15.9	10.2	-0.9	-0.7
Nonmineral	1.9	2.5	1.9	3.5	3.5
Central government budget (percent of GDP)					
Revenue and grants	29.7	27.8	28.4	31.3	28.0
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Overall balance, cash basis (including grants) 1/	-3.9	-5.3	-1.6	1.1	2.7
Domestic financing (net) 2/	0.9	6.1	3.7	0.5	-1.0
Of which: Banking system	-2.4	4.8	-1.0	0.6	-2.0
External financing (net)	3.0	-0.9	-2.1	-1.6	-1.7
Money and credit (end-period percentage change)					
Domestic credit	-12.3	20.4	-8.1	1.3	-1.0
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(In percent of GDP)	6.5	-1.0	4.4	2.1	4.2
Overall balance	66	-100	184	184	171
Reserves and external debt (end-period, in millions of U.S. dollars)					
Net international reserves	331	224	398	575	749
(In months of nonmining imports, c.i.f.)	4.3	3.0	4.3	5.3	5.5
Gross international reserves	440	340	521	639	750
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Public external debt-to-GDP ratio (in percent) 3/	48.7	51.5	44.1	34.5	27.3
Public external debt-service ratio (percent of exports of goods and services)	7.9	7.9	7.5	8.7	6.0
Exchange rates					
US\$/kina (period average)	0.2964	0.2573	0.2814	0.3104	0.3217
US\$/kina (end-period)	0.2658	0.2488	0.3000	0.3200	0.3230
Nominal GDP (millions of kina)	10,396	11,657	12,858	13,790	15,143

Sources: Data provided by the Papua New Guinea authorities; and Fund staff estimates and projections.

1/ Measured from below the line in the fiscal accounts.

2/ Includes changes in check float.

3/ The decline in the debt ratio since 2003 is mainly due to a significant increase in nominal GDP growth and exchange rate effects.