

SU/20/34

March 10, 2020

**The Acting Chair's Summing Up
Papua New Guinea—2019 Article IV Consultation
Executive Board Meeting 20/24
March 9, 2020**

Executive Directors agreed with the thrust of the staff appraisal. They noted that while Papua New Guinea recovered in 2019 from the adverse impact of the 2018 earthquake, the economy is underperforming, with low trend growth, foreign exchange shortages, and rising public debt. Going forward, Directors emphasized the need to improve fiscal sustainability, enhance financial sector stability, restore exchange rate convertibility and flexibility, and boost sustainable, inclusive growth. In this context, they welcomed the new government's initiatives and noted that the authorities' request for a Staff Monitored Program sent a strong signal of their commitment to implement reforms.

Directors underscored that fiscal expenditure reforms need to focus on bringing personnel emoluments under control to make space for social spending and public investment. On the revenue side, the updated Medium-Term Revenue Strategy needs to be pursued vigorously, as increased domestic revenue mobilization is essential to achieve development objectives. Directors noted the sharp increase in public debt in 2019 which reflected recognition of state-owned enterprise debt and revaluation of external debt. However, Directors emphasized the need to reduce the debt-to-GDP ratio as a crucial anchor for fiscal policy, for which a strong and sustained program of expenditure and revenue reforms is essential.

Directors agreed that foreign exchange shortages were an impediment to private sector investment and competitiveness in the non-resource sector. They encouraged the authorities to restore exchange rate flexibility and currency convertibility and to strengthen the effectiveness of monetary operations.

Directors stressed the need for structural reforms. In particular, they urged the authorities to pursue governance reforms to enhance efficiency and equity in the delivery of public services, and state-owned enterprise reforms to strengthen their accountability and improve performance. In addition, Directors saw scope for improvements in AML/CFT compliance.

Directors agreed that the government's reform program is ambitious and will require support from development partners both financially and with technical assistance. They encouraged the authorities to fully engage in capacity development and utilize Fund technical assistance, including for improvements in data quality.

It is expected that the next Article IV consultation with Papua New Guinea will be held on the standard 12-month cycle.