



BANK OF PAPUA NEW GUINEA

PRESS STATEMENT

2016 INTERNATIONAL MONETARY FUND (IMF) ARTICLE IV MISSION REPORT ON PNG

The IMF conducted their Annual Article IV Mission in September 2016. A report on the findings by the Mission was produced and circulated to PNG Authorities in October 2016 for comments. The report did not accurately cover the performance of the PNG economy, as a number of serious errors were noted in the report. Detailed comments on these critical issues were provided by the Bank of PNG to the IMF Mission. These include the following.

- 1. Debt-to-GDP Ratio** – the PNG National Statistical Office (NSO) released data on nominal Gross Domestic Product (GDP) for 2006-2013 on 23 March 2016. The Bank of PNG and the Department of Treasury extrapolated the data to 2021, which was used in the 2017 National Budget. Using these GDP data, the public Debt-to-GDP ratios are well below the 30% limit stipulated under the Fiscal Responsibility Act, all through to 2021. The IMF Mission decided not to use these GDP data, and instead used old data which show this ratio well above 30%, implying a breach of the Act.
- 2. Months of Import Cover** – This is a measure of sustainability of balance of payments of a country, and its capacity to absorb external shocks. The common methodology to calculate import cover used by many countries is to divide the total international reserves by the total value of imports, and multiply that by twelve (12) months. In PNG, we use the value of 'goods' imported for the non-mineral sector. This is because the gas, oil and mineral sectors are allowed to hold offshore foreign currency accounts under their respective Project Development Agreements from which they meet their external commitments, and do not rely on the country's foreign exchange reserves. This is the measure PNG has used since independence, which gives 15.8 months for non-mineral imports in 2015 and 15.4 months cover as at June 2016. Even if we include the value of 'services' imported for the total imports of the non-mineral sector, PNG still maintains a healthy balance of payments position with 10.0 months cover as at end 2015. The IMF reported an import cover of around 3.0 months for 2015, which they have not explained in their report. The 3.0 months import cover is often used as the minimum cover and implies that our foreign exchange reserves are dangerously low.
- 3. No Breaches of Article VIII** – In breach of protocol and in an unprecedented manner, the head of the IMF Article IV Mission brought along an Article VIII Mission, without informing the PNG Authorities. This Mission deals with breaches to current account transactions and Multiple Currency Practices (MCP) by member countries. The Article VIII Mission did not find any breaches of multiple currency exchange rate practices but still requested the PNG Authorities to commit to correcting a hypothetical breach, which might or will happen in the future. It is unacceptable for the PNG Authorities to agree to correct something that may not happen.
- 4. Tax Clearance Certificate** – The Tax Clearance Certificate (TCC) is a taxation matter requiring residents to obtain approval from the Internal Revenue Commission that they have no tax obligations before transacting funds abroad. This has always been the process in PNG, where Bank of PNG only ensures compliance to this taxation requirement. It has never been an issue raised during previous visits by the IMF. For the first time the Mission defined the TCC as a breach of Article VIII, re: current account transactions.
- 5. Foreign Exchange Market** – The IMF Mission calculated the depreciation of the Kina exchange rate from June 2014 when the Bank of PNG introduced the trading margin. The trading margin was introduced to stop commercial banks from conducting a parallel market with some of their large preferred customers, and re-establish the daily interbank rate, published by the Central Bank as the official exchange rate. The parallel market exchange rate used by the IMF Mission is very unusual and far from being the practice by Central Banks and the IMF. The result was a major discrepancy in the depreciation of the Kina that started in April 2012, which should be the starting point of the depreciation of the exchange rate the IMF calculated. In addition, the IMF Mission advocated further depreciation of the Kina exchange rate based on their belief that it will encourage agriculture production and exports. We argued otherwise, due to capacity constraints in this sector and the longer time it takes for production and exports to react to changes in the exchange rate.
- 6. IMF Visit Staff Report** – The Head of the IMF Mission agreed to incorporate the comments by Bank of PNG in their report and the paper to the IMF Board. However, the final IMF Staff report did not include such revisions (corrections).

The PNG Authorities then argued that the IMF should include 'Authorities Views', which would provide a more balanced and accurate report on the performance of the PNG economy in 2015 and 2016, and the 2017 National Budget. While the IMF did include a separate section on authorities views, the final report did not incorporate the changes we suggested. It is for the above reasons that the Bank of PNG did not approve the publication of the IMF Article IV report, and requested more time to consider it.

Member countries of the IMF have the right to object to the reports by the IMF staff. As a member, we have exercised our right not to accept the 2016 IMF Article IV and Article VIII Mission's findings, which contain some serious errors.

The Bank of PNG will consider the above issues and how they are covered in the IMF Article IV report, and advise the IMF if we consent for them to publish the report. This is expected to be done before the end of January 2017.

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Governor