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Funding from IMF for PNG?

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Last week, we discussed the possibility of Fiji seeking special funding from International Monetary Fund (IMF) for cyclone Winston rehabilitation, which was indicated by Reserve Bank Governor, Barry Whiteside in his speech at the listing of Vision Investments on the South Pacific Stock Exchange last month.

This week, we discuss the probability of Papua New Guinea (PNG) seeking special funding, which is very much in the air. It is widely discussed in the media and raised by oppositions, although there has been no denial or confirmation from official circles. The reasons for special assistance from IMF are apparently similar.

There are circumstances beyond control of two nations. The circumstances beyond control generally range from terms of trade shocks, natural disasters, post-conflict situations, broad economic transition, poverty reduction, and sovereign debt restructuring to confidence-driven banking and currency crises.

IMF Special Funding

Special funding facility consists of two: one is Rapid Credit Facility (RCF) and Rapid Financing Instrument (RFI). The RCF provides the borrower disbursement of Special Drawing Rights (SDR) of an agreed figure of millions of US dollars equivalent. The RFI enables borrowers to purchase SDRs. The RCF is a loan. It provides immediate financial support in a single, up-front payout for low-income countries facing urgent financing needs, whereas RFI enables the country to purchase SDR, only when required.

Both are designed to help the member country cope with its immediate foreign reserve needs and to “catalyze critical donor support for the recovery.” The RCF loan has no interest rate with a long period of maturity. There will be no conditionalities either, if it is clearly seen that the crises are not of their own making. The Cyclone Pam special assistance approved by IMF in June after cyclone struck Vanuatu in March 2015 is an example.

It is clear that Fiji's problems today are purely due to natural disasters. The IMF in its Article IV Staff Consultation Report released in January this year has endorsed Fiji's economic policies as sound. The record speaks for itself: for 2015, growth rate: 4.3 percent; fiscal deficit: 3.5 percent; inflation: 2.8 percent; and debt 46.1 percent.

On the other hand, PNG despite its growth at 9.9 percent in 2015, driven by export earnings from oil and minerals and a full year of the liquefied natural gas (LNG) production, is struggling with revenue short falls. The central banks' latest Quarterly Economic Bulletin says price forecast of US$60 (K170) per barrel for oil and US$12 (K34) per million metric British thermal units for LNG would not be achieved. With the planned total expenditure of Kina 14.8 billion, and revenue of Kina 12.7 billion, the fiscal deficit was estimated at Kina 2.1 billion or 3.3 percent of GDP. Now with the IMF forecasts for 2016 for the two commodities being only US$42.0 per barrel and US$9.5 per million metric British thermal units in 2016, the revenue targets, as Bank of PNG (BPNG) Governor Loi Martin Bakani says, are not reachable.

It is feared the fiscal deficit would rise to 6 percent of GDP.

PNG's debt level

Already reports appeared in PNG's press that public servants have not been paid wages and funds for basic services in the provinces. Viewed in this context, the only option is borrowing for financing the emerging deficits. PNG's total debt is around 56 percent, which is already well above the legislated debt limit of 35 percent of GDP.

If deficits were to be financed by additional borrowing, such borrowings would only push inflation above the 2015 level of about 6 percent. The central bank Governor Bakani advises the government to "cut and reprioritize its expenditure" and wants money borrowed should be spent on "productive and quality investments to grow the economy with more emphasis on the agriculture and the export sector as well as tourism." The BPNG Governor says such emphasis "should lessen the burden on future debt repayments and avoid more financial resources being diverted away from productive investments to debt repayments."

Although foreign exchange reserves were in late 2015 around US$ 1.9 billion, sufficient for 10.8 months of total and 18.7 months of non-mineral import covers, they are in danger of being eroded soon. Although PNG has a flexible exchange rate regime, it is a managed float. If the currency is allowed to depreciate, it will make import prices of all goods including many urban staples (wheat and rice) go up. On Thursday March 17, PNG government advised all overseas travel for Ministers and civil servants and all overseas missions should now get prior approval of the prime minister.

Since provinces have no cash for paying salaries and wages and public servants have not been paid, the fear is BPNG would be forced to lend to government against the reserves, which effectively means printing currency. That would also be inflationary. Besides, it would also raise government debt, this time to central bank.

It is claimed that government debt alone which was estimated at US$ 2.2 billion in 2011 when the current government took over, now stands at US$ 8.7 billion.

No wonder, there is an increasing clamour by the opposition for IMF assistance, although there is no word from government.

In the event of PNG making a request, will IMF consider it as Special Assistance (RCF and RFI) without any conditionalities, as it was in the case of Vanuatu's Pam Cyclone Relief?

Will it be treated as a normal assistance requested for structural loan with the usual harsh conditionalities for "putting the house in order"?

That remains to be seen.

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