PNG's IMF-led reform era draws to a close

by Maholopa Laveil

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Bank notes in Papua New Guinea
Photo Credit: LinkedIn/Oxford Business Group

At the end of 2026, the International Monetary Fund (IMF) loan program with Papua New Guinea will end. PNG had turned to the IMF four times prior to this decade, all during the 1990s and early 2000s and for under two years at a time. Looking ahead, PNG will face the challenge of sustaining reforms without the IMF's direct oversight of its most valuable loan program to date.

PNG's lengthy engagement with the IMF this time is partly due to more stable politics than in the 1990s. Prime Minister James Marape's six-and-a-half years in office is longer than the average 1990s prime ministerial tenure of three years. The Marape administration first engaged the IMF in 2020 and has since had two staff-monitored programs and three loan programs totalling US$1.2 billion from 2023. To date, PNG has passed five program reviews — an achievement considering many IMF programs fail globally. The IMF's loan conditions are also less ambitious compared to the 1990s, which is another possible reason why PNG's IMF engagement has lasted this long.

The IMF rates PNG's progress on its loan conditions as satisfactory. Major reforms have included repairing government budgets through tighter expenditure control, strengthening tax compliance and introducing a more predictable dividend policy for state-owned enterprises. These measures have helped stabilise revenue and reduce budget deficits.

Another reform has been assisting the central bank to unwind the crawling peg that kept its currency, the kina, overvalued for nearly a decade. To maintain an artificially high kina, the central bank rationed foreign exchange (FX). This became a concern for businesses, leading to import compression and impeding the repatriation of profits. IMF conditions, including increasing the size and frequency of FX injections into the market, have significantly reduced the backlog of FX orders.

Yet international firms still face an FX order backlog in repatriating profits. IMF conditions have also stopped short of outlawing FX rationing, meaning it could re-emerge when the loan program ends.

Other IMF conditions have been controversial. One is requiring the parliament to pass an amendment establishing a board to oversee PNG's tax collection agency, the Internal Revenue Commission. This has been opposed by the commissioner of the Internal Revenue Commission, who claims a board will undermine its independence. Another controversial IMF reform was repealing the parliament-endorsed amendment that gave the central bank a broad mandate covering both growth and inflation, returning its focus solely to price stability.

The IMF's anti-corruption reforms have also stalled. These include operationalising the Independent Commission Against Corruption, which has suffered reports of mismanagement and internal dysfunction, resulting in the suspension of its foreign commissioners. The commission's limited operations are not surprising.

Slow progress on anti-corruption reform also means PNG will likely be grey-listed by the Financial Action Task Force in 2026. In 2024, the Asia/Pacific Group on Money Laundering found that PNG performed poorly on many measures relating to anti-money laundering and countering the financing of terrorism.

This reflects the low prosecution rate of money laundering cases, the declining number of sanctions against politicians accused of corruption and a failure to address high-risk areas such as illegal logging and fishing, as well as tax evasion. Grey-listing has the potential to disrupt banking relationships, deter foreign investment and increase borrowing costs.

The IMF's programs have allowed Australia to lend to PNG at concessional rates. Lending began in 2020 to support PNG's budget during the pandemic. Australia has continued to lend, making it PNG's largest bilateral creditor, with loans totalling around US$2 billion, enabling it to provide more development finance to PNG when real grant levels have been stagnant. Outsourcing influence over reform to the IMF has also enabled Australia to pursue other aspects of its bilateral relationship such as financing a PNG team to join its national rugby league competition in exchange for PNG's signing a defence treaty.

Australia's lending itself is not problematic for PNG. Budget deficits as a share of GDP have fallen from 9% in 2020 to an estimated 2.2% in 2025. PNG's debt has returned to an estimated 47% of GDP in 2025 and debt servicing costs as a share of government revenue (excluding grants) have fallen from 20% in 2020 to an estimated 15% in 2025. Foreign debt, mostly concessional, has come to make up half of PNG's stock of debt.

In short, PNG is borrowing less and more cheaply because of IMF conditions and high commodity prices that have boosted revenues. But debt servicing costs have begun to rise as interest rates have increased and the kina has depreciated.

The IMF has been an important anchor for reform in PNG, despite the fact that not all its conditions have been successful or popular. It has navigated PNG's political scene well, ensuring its loan program ends a year before national elections in 2027. Given how unpopular the IMF is with the opposition, its presence in PNG is unlikely to survive a change of government in 2027. The end of its loan program in 2026 will test the durability of PNG's institutional commitment to reform in the absence of any future arrangement.

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