



**Australian Government**  
**The Treasury**



**National Interest Statement:**  
**2022 Loan Agreement between the Commonwealth of  
Australia and the Independent State of Papua New  
Guinea**

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## NATIONAL INTEREST STATEMENT

### **Loan Agreement between the Australian Government and the Independent State of Papua New Guinea**

#### **Summary**

This National Interest Statement (Statement) relates to the loan agreement between Australia and the Independent State of Papua New Guinea (PNG) on 15 December 2022 for A\$750 million. This Statement is being tabled pursuant to the requirements of sections 8D-8E of the *International Monetary Agreements Act 1947* (IMA Act).

The loan is in response to a request by letter from the PNG Treasurer, the Hon Mr Ian Ling-Stuckey on 2 September 2022 requesting financial assistance. In his letter, Treasurer Ling-Stuckey thanked Australia for vital budget support and noted the important progress the PNG government has taken to repair PNG's budget and recover from the impacts of COVID-19. The letter formally requested further support required to enable the PNG Government to meet its estimated 2022 budget financing need of A\$750 million.

The provision of further bilateral support reinforces the positive relationship between Australia and PNG and the importance both governments attach to regional prosperity and stability. The loan builds on the previous budget support loans Australia provided in 2020 and 2021 and represents Australia's continued support under the Comprehensive Strategic and Economic Partnership with PNG.

On 15 December 2022, Australia formally entered into a loan agreement with PNG to support its estimated 2022 budget financing shortfall and support the delivery of reform actions under multilateral development programs, including a new International Monetary Fund (IMF) program expected to be established in 2023, the Asian Development Bank State Owned Enterprise Reform Program and the World Bank Development Policy Operation.

PNG has experienced significant economic challenges due to COVID-19, however the PNG Government remains committed to budget repair and improving the country's fiscal position. In comparison to PNG's 2021 Budget deficit of K\$6.27 billion (A\$2.7 billion) or 6.7 per cent of GDP, PNG's 2022 MYEFO identified the current budget deficit of K\$5.984 billion (A\$2.6 billion) or 5.4 per cent of GDP.

The loan is provided at the Australian Government's cost of borrowing and involves no cost to the Australian taxpayer.

## **Legislative Requirements**

The IMA Act (section 8c (1)) provides that Australia may enter into an agreement for a loan to another country where the loan provides financial assistance in support of an IMF program to another country and if the Treasurer is satisfied that at least one other government or organisation has, or will be, providing similar assistance.

PNG has requested a new Extended Credit Facility with the IMF, which is currently under negotiation and expected to be established in 2023. Australia's loan of A\$750 million will be provided in support of this program.

In addition to the technical support PNG is getting through the IMF, the New Zealand Government has committed to provide financial support to PNG's ongoing economic reform agenda, which incorporates actions under multilateral development programs including the intended IMF program in 2023. New Zealand will provide funding of USD\$850,000 to PNG's Treasury.

This Statement is tabled pursuant to the requirements of sections 8D-8E of the IMA Act. The IMA Act requires the Treasurer to table a statement as soon as practicable after entering into such an agreement. The Statement should include a description, in as much detail as practicable, of the nature and terms of the agreement; and the reasons why the agreement is in Australia's national interest, having regard, in particular, to foreign policy, trade and economic interests.

## **National Interest Assessment**

It is in Australia's national interests to promote economic and political stability in PNG given its proximity to Australia and the unique and enduring connections that span decades. As the 2017 Foreign Policy White Paper states, "PNG's security and stability is a fundamental Australian strategic interest".

Helping the PNG Government meet its estimated 2022 budget financing shortfall will support the continued funding of essential government services such as healthcare and education, support PNG's economic reform and ongoing budget repair efforts. It will also support PNG to deliver reform under multilateral development programs including the expected new IMF Program.

PNG's economic outlook forecasts greater stability following the pandemic. The PNG economy is projected to grow between 4 and 5 per cent. However, many challenges remain from low COVID-19 vaccination rates, rising inflation, a slowing global economy, and a weak fiscal position. This loan builds upon the support Australia provided to PNG in 2020 and 2021 to help with budget repair efforts as PNG emerged from the severe impacts of COVID-19.

PNG's self-identified long-term budget repair goals are worthy of Australian support and this loan will continue to strengthen our bilateral relationship underpinned by the Comprehensive Strategic and Economic Partnership (CSEP) of 2020. The CSEP provides an enduring and overarching framework for deepening bilateral cooperation across security, trade and investment, governance, development cooperation, health, education, gender equality, climate change, people-to-people and institutional links, underpinned by a commitment to achieving concrete outcomes by 2030.

As PNG focuses on economic repair, the clear goals of the PNG Government remain providing a better standard of living and more opportunities for its citizens. These considerations are core to Australia's decision to approve the loan.

## **Nature and terms of the Loan Agreement**

On 15 December 2022, Australia and PNG entered into a 20-year loan following a request from the PNG Treasurer, the Hon Ian Ling-Stuckey MP, to support PNG to meet its estimated 2022 budget financing shortfall. The loan will also assist PNG in delivering economic reforms under multilateral development programs, including a new IMF program expected to be established in 2023, the Asian Development Bank State Owned Enterprise Reform Program and the World Bank Development Policy Operation. This loan represents Australia's continued commitment to helping PNG towards more sustainable macroeconomic policy settings and reducing longer-term vulnerability.

The total principal of the loan is A\$750 million with the base interest rate set at the 10-year Australian Government bond rate as at the date 10 business days before a date nominated by PNG to draw down the loan, being 3.355 per cent. This rate, along with the rates of other Australian Government Securities, are published on the Reserve Bank of Australia website. Repayments of the loan principal and interest are six monthly.

The loan is provided on a full cost recovery basis to ensure that it can be provided to PNG at no cost to Australian taxpayers. Australia has an option to review the loan's interest rate 10 years after drawdown, at which time the rate can be amended if it no longer aligns with the Australian Government's cost of borrowing.