

Leonard Wilson Kamit: The 2003 dividend to the government

Speech by Mr Leonard Wilson Kamit, CBE, Governor and Chairman of the Board of the Bank of Papua New Guinea, on the occasion of the payment of the 2003 dividend to the government, Port Moresby, 14 September 2004.

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Introduction

The Minister for Finance and Treasury, Honourable Bart Philemon M.P, members of the Board, executives of the Bank of Papua New Guinea, ladies and gentlemen.

The Central Banking Act (CBA) 2000 specifies the objectives and functions of the Bank of Papua New Guinea. Besides our core functions of managing monetary policy, supervising the financial system, ensuring an efficient payments system, promoting macroeconomic stability and economic growth in Papua New Guinea, the Central Bank also has a special relationship with its shareholder, the Government. The Bank is mandated to provide to the Government advice on financial and banking matters, and liaise closely with the Treasury Department on macroeconomic matters. Our relationship with the Government involves acting as its banker and financial agent, as the official depository, perform general agency functions, liaise with international financial institutions and provide short-term advances to meet cash-flow mismatches. The Bank of PNG has a Board that ensures that the Governor and management perform in fulfilling the duties so prescribed as well as strive to make profits and declare dividends to its shareholder.

I am pleased to announce that the Central Bank has a very dynamic and vigilant Board, which ensures that the Bank's policies and operations are prudent and sound. The membership of the Board as prescribed under the Central Banking Act has representation from the civil and business community with explicit governance responsibilities. The Board members are:

Mr L Wilson Kamit CBE	– Governor & Chairman
Mr Benny Popoitai MBE	– Deputy Governor, Management & Operations
Rev Samson Lowa	– President, PNG Council of Churches
Mr John Mahuk	– President, PNG Trade Union Congress
Mr Michael Mayberry	– President, PNG Chamber of Commerce
Mr Patrick Kolta	– President, PNG Institute of Accountants
Mr Kostas Constantinou OBE	– Managing Director, Lamana Hotel Ltd
Mr Robert Igara CMG	– Chief Executive, PNG Sustainable Development Program Ltd
The late Koiari Tarata ISO, CBE	– Secretary, Department of Treasury (<i>now vacant</i>)

To ensure that accountability, structural and governance matters were strengthened in the Bank, the Board established an Audit Committee. The approved a charter for the Audit Committee covers the responsibilities, role, purpose and authority of the Audit Committee. An internal Tender Committee was also established to ensure that due process is followed in the assessment and allocation of contracts for good and services to be provided by external parties. The Board also established an Investment Committee to oversee the development and implementation of procedures for management of foreign exchange reserves held by the Bank of PNG.

The Central Bank performance has been strengthened due to its adherence to good governance, ensuring that procedures and policies are followed. The Board insists on adherence to good governance and management and staff strive to maintain a high degree of professionalism and integrity in their work. This has been supported by the implementation of new systems in the Bank, and on-going capacity building and training of staff.

Today marks another occasion when the Central Bank pays due to its shareholder, the Government, on behalf of the people of Papua New Guinea. This time, paying our dividend to the Government from the Bank's 2003 operating profit.

The 2003 dividend

At the Board meeting on 30 June 2004, the Board endorsed the Bank's final and audited accounts for 2003, which was audited by the Auditor General's office. The audit confirmed that the operating profit for 2003 was K68 million, which is the highest level recorded in the Bank's history.

The Board also approved that the net profit available for payment as dividend to the Government is K50 million after a transfer of K18 million to the reserve funds of the Bank of PNG. This appropriation is consistent with the Bank's policy adopted by the Board in September 2002, to build its reserve funds to 10 percent of assets at risk in order to meet any future contingencies that may arise in the Bank's operations. At end December 2003, the amount of assets at risks was K2,600 million, while the balance in the reserve funds was K125 million. The Minister has agreed to these profit appropriations.

The 2003 operating profit resulted from the following major sources of revenue and expenditures areas:

	2003 (K mn)	2002 (K mn)
Interest revenue		
Overseas investments	31.93	61.10
Domestic gov't securities	116.15	76.94
Others: fees/commission from Fx transactions/rent	11.27	16.52
Total	159.35	154.56

Expenses		
Interest - gov't securities	55.07	73.80
General administration	36.28	26.70
Total	91.35	100.50

The figures for 2003 in comparison to those of 2002 show that:

- (1) Significant revenue was earned from domestic market operations due to higher level of Government securities held by the Bank and high interest rates on Treasury bills;
- (2) Interest expenditures were lower compared to 2002, due to limited involvement by the Bank in the secondary market for Treasury bills; and
- (3) Generally expenditures were well controlled although significant costs were incurred in the areas of:
 - IT Management of Systems;
 - Building Maintenance;
 - Currency Replenishment; and
 - Staffing Costs - Salaries and Wages, and Training.

The way ahead

Honourable Minister, the Bank's 2004 financial results would likely be affected by the current low interest rate environment and high liquidity situation that we confront since the beginning of the year. Whilst we have rebuild our foreign exchange reserves, our interest earnings on them would be also affected by the low interest rates overseas and the appreciation of the kina exchange rate.

It is therefore important that this dividend payment should not allow us to rest on our laurels and pat ourselves on the back. Whilst we should take time to celebrate achieving such a result, we must also be mindful of our on-going duty to the Government and the nation.

There are still on-going work within the Central Bank to improve the design of our policies and their implementation. We are constantly striving to improve our operations to enhance efficiency in achieving our core objectives and functions by using the latest technology, follow international best practices, and continue to build our internal capacity. And indeed the brief but very significant visit by the Deputy Managing Director of the IMF, Mr. Agustins Carstens, not only provided a strong sign of confidence on the Government's economic management, but also gave us the opportunity to discuss further technical assistance in various areas of the Bank's operations.

Let me mention some of the major tasks currently undertaken by the Bank:

- Building up our capacity to supervise the financial system including life insurance and superannuation fund industries with external assistance;
- Undertaking research work on the Central Bank's operations and policies;
- Implement an electronic registry system to help with our domestic trading of Government securities;
- Review of the Exchange Control Regulations;
- Drafting of the Anti-Money Laundering legislations with Government agencies; and
- Involvement in the implementation of the PNG-ADB Microfinance Project.

These changes and the on-going work will ensure the Central Bank not only fulfills its mandate to the Government and people of Papua New Guinea, but also allows us to be responsive to the everchanging vagaries of the world we live in today. I am confident that the Board, management and staff of the Central Bank are up to the challenge.

I would like to take the opportunity to thank the Board to which I am most privileged to be the Chairman; the management and staff of the Central Bank for the support and commitment they continue to display in their various roles. I also wish to thank the Auditor General and his staff for their assistance over the years.

Honourable Minister with these few remarks, I now present to you the Bank of PNG's dividend for the 2003 financial year of K50 million.

Thank you.