

Leonard Wilson Kamit: Papua New Guinea - current economic conditions

Speech by Mr Leonard Wilson Kamit, CBE, Governor and Chairman of the Board of the Bank of Papua New Guinea, to the West New Britain Provincial Community on the occasion of the Bank Board meeting, Kimbe, 24 September 2004.

* * *

1. Introduction

Officials and business leaders of the West New Britain community, Police Commissioner Mr. Sam Inguba and your senior officers, Secretary for the Department of Petroleum and Energy, Mr. Joseph Gabut, distinguished guests, ladies and gentlemen.

I speak on behalf of the Board of the Central Bank when I say that it is a pleasure for us to be here this evening to meet with you, the representatives of the private, public and civic sectors of the province.

Let me introduce to you members of the Board of our Central Bank. Besides myself and the Deputy Governor Mr Benny Popoitai, the members of the Board (ex-officio) who are appointed in accordance with Section 27 of the CBA (2000), which specifies representation by various industry and community organisations are:

Mr. Michael Mayberry, MBE, President of the PNG Chamber of Commerce

Mr. John Mahuk, President of the PNG Trade Union Congress

Mr. Patrick Kolta, President of the PNG Institute of Accountants

Reverend Samson Lowa, President of the PNG Council of Churches

Vacant - Deputy Governor, Policy and Regulations

Vacant - Chairman of the Securities Commission

Vacant - Minister's appointee

Two other Board members appointed by the Minister for Finance and Treasury are;

Mr. Kostas Constantinou

Mr. Robert Igara

As most of you know, the Bank of Papua New Guinea has only one office in Port Moresby. We do not have branches in the other centers. As such, the only time we have the opportunity to visit provincial centres is through our business liaison visits, visits to provincial-based savings and loan societies, special project visits (e.g. commodity surveys), through special invitations to talk or make presentations at conferences, and through Board meetings such as today. In the last six years, we have had the opportunity to address conferences/meetings in Mount Hagen, Kavieng, Kokopo, Goroka and Lae without the Board, and with the full Board in Lae, Alotau, Kavieng, Wewak and Goroka. Today is our sixth such meeting outside of Port Moresby.

We have covered all the regions of Papua New Guinea - Highlands, Islands, Southern and Momase in our visitation. The Central Bank is a national institution that belongs to the people of PNG. And so we will continue to go out to them in this fashion. These visits provide an opportunity for Board members and senior Bank officials to meet with community leaders and our business liaison contacts and also to undertake some educational presentations such as the one we had for Kimbe Secondary School year 11 and 12 yesterday. The visits also enable the Central Bank to do business (spend some funds) in the localities. Please do not over charge us - we are a business just like you and we are also expected to make profits and pay dividends to our only shareholder, the Government.

Over these years in which the Board has met in Port Moresby and around the country, we have seen the economy turned around from a depressed state. From two years ago, the economy has recovered and there is confidence in the market, though much of the fundamentals still have to be continuously nurtured, including transportation and other physical infrastructure. We therefore have to remain vigilant. There is no room at all for complacency.

2. Current economic conditions

The Central Bank has just released the June 2004 Quarterly Economic Bulletin, which was reported in the media on Wednesday 22nd September 2004, so I shall not dwell too much into these

developments. Data available to the Central Bank indicates that the economy continues to improve in 2004. In brief:

- **Domestic economic conditions:** Economic activity continued to improve in the first half of 2004, led by the export sector with higher production and prices of most mineral and non-mineral commodities.
- **Inflation:** The annual inflation rate continues to trend downwards in 2004, to 1.9 percent to June 2004 from 19.0 percent in June 2003. This reflected the positive impact of the stability in the exchange rate and fiscal restraint by the Government. For the remainder of 2004, we expect this declining trend to continue, if current stability in macroeconomic conditions, particularly exchange rate continues.
- **Exchange rate:** The positive developments in the foreign exchange market since the second half of 2003 with stable inflows from both the mineral and agricultural sectors has resulted in the appreciation of the kina. The exchange rate appreciated from US\$ 0.3080 at the end of March 2004 to US\$ 0.3120 in September. The Australian dollar appreciated from A\$ 0.4057 at end March 2004 to A\$ 0.4462 on 20 September 2004.
- **Balance of payments (BOP):** The improved inflows of export receipts reflect higher prices and volumes by the non-mineral sector, which is an encouraging sign that growers and exporters are responding positively to the improvements in commodity prices. The Central Bank has also increased its gross foreign exchange reserves to a historical level of K1,992 (US\$ 623) million on 31 August 2004, sufficient for total and nonmineral import covers of 5.6 and 7.5 months, respectively.
- **Fiscal operations:** The National Government's commitment to the 2004 budgetary framework resulted in it achieving a budget surplus of K219.6 million in the seven months to July 2004. This improvement was due to higher tax and dividend receipts, and lower interest cost on domestic debt. The prudent fiscal management resulted in a net retirement of K72.6 million in Treasury bills, the front loading of counter part funding for development projects, and allowed the restructuring of domestic debt from short to long term.
- **Domestic interest rates:** Consistent with the easing stance of monetary policy since the second half of 2003, interest rates continued to trend downwards. The 28 days Treasury bill rate declined from 7.00 percent at the end of June 2004 to 4.50 percent this week, while the commercial banks indicator lending rates (ILR s) have also trended downwards to reach a range of between 11.75 and 12.75 percent by the 1st of October 2004. With the annual inflation rate at 1.9 percent, the returns on Treasury bills are still positive and portfolio investors are encouraged to retain funds onshore rather than take unnecessary exchange rate risks by investing offshore.
- **Lending:** Lending by the commercial banks continued to decline, in spite of the high liquidity levels in the banking system and the low interest rate environment. The Central Bank has encouraged the commercial banks to pass on the benefits of the low interest rates to their customers. In addition, the Bank removed the restrictions on kina lending by licensed financial institutions to Non-Resident companies as part of the review on Foreign Exchange Control Regulations and to encourage lending by the banks. I am encouraged by recent comments that there are very viable projects commercial banks are now viewing.

Given the high level of liquidity in the banking system and to smoothen the sharp decline in interest rates, the Tap facility was closed in May 2004 and the maturing volumes were shifted to the weekly auction. In addition, the minimum amount at the auction was increased from K100,000 to K500,000. Recent media commentaries have suggested that the Central Bank's actions are adversely affecting small investors. However, these actions are consistent with the Bank's objective of price stability and aim to encourage the development of the secondary market for Government securities, thereby promoting a vibrant financial market and system. Small investors can purchase treasury bills from fund managers, stock brokers (Capital Stock brokers and Kina Securities) and other finance houses with amounts of K10,000.

3. The Central Bank

The financial reforms since 2000 have involved changes to the various Acts, which the Bank of PNG operates under. Besides the commercial banks, finance companies, and savings and loan societies, we now oversee the life insurance companies, superannuation funds, and the micro credit schemes.

The Central Bank also encourages the establishment of savings and loan societies to provide complementary financial services to those provided by the banks, finance companies and the existing Savings and Loan societies. This is one important mechanism of ensuring financial services reach our people in the outside centers and rural communities. As at the end of June 2004, there were twenty-one (21) active savings and loan societies. There are now three types of saving and loan societies: employer-based societies such as Teachers and Elcom; provincial-based societies like the East New Britain Savings and Loan society; and superannuation-based societies for their members. Provincial-based societies are flavoured in a fashion that membership is open to those living in the province and those who are from the province but are living or working outside the province. The workers outside the province who contribute to such societies find it beneficial when they go home for holidays and need to obtain financial resources.

The Central Bank stands ready to assist those willing and able to establish their savings and loan society, providing advice and ensuring sound management practices, and systems support.

May I publicly warn against the fast-money schemes or pyramid schemes. We have clamped down on the operators of these schemes. The Central Bank continues to work with the law enforcing agencies to stamp up these illegal schemes, which have created financial problems for many of our people. I acknowledge and am most thankful for the assistance from the Police in this aspect. We have also taken out advertisements listing the licensed financial institutions and warning the public on the illegal schemes. The Central Bank can only do so much - we need the public's support - your support and the support from the media - to help us stop and prosecute the operators of these schemes. The recent snide remarks from the media and the public do not augur for the efforts of all concerned persons to stamp out this form of robbery from the public.

4. Acknowledgements

May I take this opportunity to thank the business houses and community in Kimbe and the West New Britain province for your support in participating in the business and employment surveys conducted by the Bank.

Your continued support in providing us with up-to-date information will enhance the accuracy and quality of our reports and forecasting for the formulation of monetary policy. The input together with that from other sources is compiled into the Quarterly Economic Bulletin and other Bank publications that are sought from within PNG and abroad.

The surveys are useful in enabling the Central Bank to keep abreast of developments in the real economy. The result of the surveys enables us at the Central Bank to design monetary policy, and importantly, provides another source of information for the Government to compile its estimate of Gross Domestic Product (GDP).

Whilst we can obtain information from headquarters, there is special input from actually going out into the regional centres and obtaining 'on the spot' information. At present, a total of 496 companies are included in the survey sample covering six regions and eight industries. Of these, 14 companies that are headquartered in Kimbe and Biella participate in our survey, while others are covered by their head offices in Port Moresby, Lae or Kokopo. I look forward to your continued cooperation in providing the required information in the surveys.

Let me at this point indicate some of the West New Britain province's contribution to the country's balance of payments performance. Based on various commodity reports, over the three years between 2000 and 2003, West New Britain province exported on average 61 percent of PNG's palm oil volumes or earned 59 percent of palm oil export revenue, an average of 23 percent of PNG's volumes of logs or 22 percent of export revenue from logs, and on average 1.5 percent of total cocoa volumes or 1.5 percent of cocoa export revenue.

It is important that producers and exporters continue to make use of this 'window of opportunity', with better commodity prices and stable economic conditions. This will ensure sustainability of the current improved macroeconomic environment.

The Board and staff are looking forward to the visit to the palm oil factory tomorrow to obtain first hand information on its operations.

The Central Bank would like to see the West New Britain Savings and Loan Society operating, enabling the people of this province to benefit from other financial services. This will involve the support and commitment of the provincial authorities.

As part of the Central Bank's educational efforts, besides giving talks to high school students, we also distribute books to high schools in those centres the Board visits. On behalf of the Board, I am presenting to the provincial education authorities some textbooks to the value of K1,000 for each high school in the West New Britain province.

On behalf of the Board, the Deputy Governor, the management and staff of the Central Bank, I would like to once again thank the Provincial authorities, the Chamber of Commerce, and the management and staff of the Kimbe Bay Hotel, Liamo Reef Resort and Walindi Resort for making our stay here in Kimbe a pleasant one.

Thank you and God bless.