

L Wilson Kamit: Difficulties, risks and opportunities for Papua New Guinea

Address by Mr L Wilson Kamit, CBE, Governor of the Bank of Papua New Guinea, to the Fifth Annual Report Meeting of Papua New Guinea Sustainable Development Program Limited, Port Moresby, 25 May 2007.

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“The Chairman of PNGSDP Prof. Ross Garnaut, members of the Board, Chief Executive Officer Mr Robert Igara and the staff, Chief Secretary Ambassador Isaac Lupari, Department Heads, members of the Diplomatic Corps representatives of the private sector, ladies and gentlemen. I thank you for inviting me to the 5th Annual Report meeting of PNG Sustainable Development Program Limited.”

There are many reasons potential investors give for not investing in Papua New Guinea. Lack of infrastructure, scarcity of skilled labour, high cost and unreliable utilities, small urban centres result in fragmented markets, law and order problems and the non accommodating land tenure system are the causes given by those familiar with the present state of affairs in Papua New Guinea.

As you all know Papua New Guinea is a very old nation but a new country. We can boast about having one of the most diversified and rich ecological systems in the World in flora and fauna. Five large islands with several hundred small ones of unspoiled white beaches, outstanding sceneries of high mountains, fast flowing rivers, swamps and thousands of kilometers of waterways. We have very rich, highly diversified cultures and traditions, with more than 800 languages of which more than 200 are advanced to a stage that the Bible can be translated into. There are huge tracks of arable land and tropical forests, very substantive marine resources in the 200 mile fishing zone, the most known resource is tuna but there are many other smaller ones. Last but not least an abundance of mineral resources of gold, copper, nickel, oil and gas which have already been discovered, and exploration for others is on the rise.

I know that there are difficulties and risks as stated in the opening paragraph of my address. Now I will state the opportunities.

The mining and petroleum industries are attracting many investors from all over the world. There are new substantive entrants such as the State owned Chinese Mining Company at Ramu Nickel, Barrick that took over the Porgera gold mine from Placer, and many companies investing large sums in exploration and others that have submitted exploration applications. There are undersea explorations for minerals (gold) with positive results. The Gas developments are moving into a new stage of developing a Liquefied Natural Gas project as well as a Gas Condensate project. The outcome is high demand for gas exploration licenses and many new companies have commenced exploration work.

The investment incentive and tax regimes are considered very competitive and favourable.

The areas with great potential are in tourism specifically eco-tourism, agriculture, and small to medium sized manufacturing. These are the least developed sectors and the ones that badly need entrepreneurial initiatives and skills. These are the industries that in the long run will provide the back bone of economic growth and income generating opportunities and employment for the great majority of the population.

In our thirty one years of independence we have had, fourteen years of stable low growth up to 1989, ten years of very difficult times up to 1999, following the Bougainville crisis. This lost decade was characterized by gross mismanagement of the economy that resulted in an almost default on our foreign currency liabilities in 1994, which forced us to float the Kina our national currency, the Sandline affair in 1997 of hiring mercenaries to fight on Bougainville, an almost second default in 1998 to 1999, the combined effect of a very severe drought, the Asian Financial Crisis and the world economic slowdown exacerbated by continued gross mismanagement of the economy.

We were very fortunate that in mid 1999, a new government was formed, that undertook some major reforms.

It took four years to stabilize the economy, re-establish the confidence of the public, and realising that the Constitutional Changes introduced to the political system through the Integrity of Political Parties Act, will result in political stability. We are experiencing for the first time a government which lasted a full term of five years.

These developments assisted by very high commodity prices of oil, copper and some of the agricultural exports like rubber, resulted in a very stable macroeconomic environment, of fiscal surpluses, low inflation, low interest rates, an appreciating exchange rate and fast accumulation of foreign exchange reserve. I am not going to bore you with numbers, but just as an indication, our foreign currency reserves increased from around US\$300 million to US\$1.5 billion in three years, and the increase is continuing. Inflation and interest rates are lower than in Australia.

Economic activity as measured by GDP growth is around 4 percent in recent years. For a low income developing country it is very low. To ensure that the great majority of the population is benefiting from the mineral boom we have to generate a 6 to 7 percent growth. I am sure that following the consolidation, and the stability period, we are moving into a fast growth phase in the years ahead.

The initiatives of PNGSDP of investing its substantial resources in removing some of the impediments to investment by improving the efficiency and reducing the very high cost structure of public utilities and basic infrastructure services, will enhance private sector investment and economic growth. The use of the very substantial resources to partner with private sector investors, investing in economic activities in all areas but specifically in agriculture, will go a long way to generate sustainable income in the Western Province and the rest of Papua New Guinea.

Thank you for inviting me to open this fifth Annual Report Meeting. I wish you all the best. Your success in implementing the projects presented in your 2006 Annual Report to stakeholders, will take this country and people a big step forward and make up for the lost decade and the low growth in recent year.

Thank you.