

L Wilson Kamit: Brief review of economic developments in Papua New Guinea

Speech by Mr L Wilson Kamit, CBE, Governor and Chairman of the Board of the Bank of Papua New Guinea, on the occasion of the Payment of the 2006 Bank of Papua New Guinea Dividend to the Government, Port Moresby, 9 August 2007.

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Introduction

The Minister for Treasury, Right Honourable Sir Rabbie L. Namaliu, CSM, KCMG, MP, 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. Our core functions are that of formulating and implementing monetary policy, supervising the financial system, ensuring an efficient payments system, and promoting macroeconomic stability and economic growth in Papua New Guinea, the Central Bank also has a special relationship with its shareholder, the Government.

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, 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. Like minded leaders, especially our Ministers, continued with this reform process and we look forward to working with the new Government on the reform agenda.

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 macro-economic 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 the statistics but just as an indication, our foreign currency reserves increased have increased from around US\$300 million to US\$1.85 billion today.

Economic activity as measured by GDP growth is projected by the Bank to be high at 4.5 percent this year. Sir Rabbie, in your recent presentation of the mid year economic assessment and fiscal outlook, GDP growth is project at 5.25 percent for the year. We are encouraged by this optimism and we all want to ensure that the great majority of the population is benefiting from the mineral boom. To ensure this, we have to generate a 6 to 7 percent growth. I have stated this in my recently released July 31st 2007 Monetary Policy Statement. I am sure that following the consolidation, and the stability period, we are moving into a fast growth phase in the years ahead.

The authorities must strive to continue 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 and that will enhance private sector investment and economic growth. There is nothing like wanting to be on the winning team. Just look at the state of origin

games and see the value of competition. If privatization or corporatisation or right sizing is such an unpalatable approach, let us not mark time. Lets get on with competition in the telecommunication, power and public utilities industries.

Right Honourable Minister, we also take care of our stakeholders. Today marks another occasion when the Central Bank pays its due to its shareholder, the Government, on behalf of the people of Papua New Guinea. The due this time is the payment of our dividend to the Government from our 2006 operating profit. We want to encourage other similar organizations to do the same.

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 our dividend payment for the 2006 financial year of K33.0 million.

Thank you.