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Statement by the Hon. IAIRO LASORO ,
Governor of the Bank for PAPUA NEW GUINEA ,
at the Joint Annual Discussion

STATEMENT BY THE HON. IAIRO LASORO

Minister for Treasury and Planning
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Introduction

Thank you Mr. Chairman.

I would like to take this opportunity to welcome Palau as the new member of the World Bank and IMF, and a member of the Pacific Group.

I would also like to join the previous speakers to share our experience in coping with current economic and financial difficulties which are affecting many parts of the world and indeed the smaller nations in the South Pacific Region.

This meeting is timely as it allows us to address common issues together, learn from each other and look for options and solutions to assist in minimizing the impact of these difficulties.

The current problems in Russia add to the world's economic difficulties. I know this is being closely monitored by international financial institutions and agencies in various fora – most recently in Ottawa, Canada last week at the Commonwealth Finance Ministers meeting.

At this juncture let me express my appreciation to the World Bank and the International Monetary Fund for providing assistance to the member countries affected by this crisis. Although this has provided some relief to the economies affected, the problems appear to have penetrated the basic structure of their economies thus affecting the general economic activity of these countries, their trading partners and other countries in the region.

We are likely to see a worsening situation and therefore, we should seriously look at establishing some form of international relief whilst not ruling out an improvement to the outlook of the East Asian and the world economy. While the financial aspects of the crisis is being dealt with, we need to reinforce the international efforts to address the social dimensions of this unprecedented crisis, which has pushed millions of people below the poverty line in the affected countries. In this context, I propose to the Fund and to the Bank to consider the idea of Debt Relief for poor countries as currently extended under the Commonwealth umbrella.

Allow me now, Mr. Chairman, to outline the developments in Papua New Guinea over the last twelve months.

Recent Economic Developments

I wish to place on record our Government's appreciation for the assistance provided to Papua New Guinea by the Fund and the Bank particularly in recent years. In late 1994, the Papua New

Guinea economy experienced a balance of payments crisis, resulting from expansionary fiscal policy in the early 1990s. The crisis prompted a marked change in fiscal, monetary and exchange rate policies.

Strict expenditure controls were introduced to bring the fiscal deficit under control, monetary policy was tightened significantly and a floating exchange rate regime was introduced.

In early 1995, the Government introduced a macroeconomic stabilization and structural adjustment program, which was supported by a World Bank Economic Recovery Program loan and a Fund Standby Arrangement. Among other areas, the Government program focussed on the reestablishment of macro economic stability.

The Government's program produced positive results. The economy stabilised and economic growth resumed.

During 1995, fiscal policy was tightened to allow a budget deficit of half of one percent of GDP for the year. In 1996 the deficit was brought into surplus of one half percent and again in 1997 a small budget surplus was achieved.

Concurrent with improved fiscal management was a turn around in the external accounts. In both 1995 and 1996 balance of payments surpluses were recorded.

These surpluses were underpinned by very healthy performance in the current account, particularly in a positive merchandise trade balance.

Economic growth resumed in late 1995, and throughout 1996 the economy expanded strongly. This growth continued in early 1997. All of these goals were achieved against the backdrop of favourable external factors, including strong economic growth in PNG's export markets and relatively good mineral and commodity prices.

The 1997 year was embarked upon with much the same favorable external environment and up to mid-1997 the PNG economy performed well, registering strong current account surplus and strong activity in the non-mining private sector.

In mid-1997 Papua New Guinea faced its worst drought in living memory caused by the El Nino weather phenomenon which affected seriously the rural economy and the livelihood of more than one million people.

The situation turned into one requiring a large-scale humanitarian supply of staple food items and water to rural communities. A quick response avoided many deaths caused by starvation and subsequent epidemics of disease.

The economic impact of the worst drought in Papua New Guinea's history was reflected in a drastic shortfall in export revenues and a sharp general economic contraction.

This was prompted by sharp falls in agricultural production in some areas and temporary closure of two of the country's largest mining projects as rivers dried up.

While the drought has subsided significantly, some sectors of the PNG economy are yet to fully recover.

As if the drought was not enough challenge for our Government which was elected into office in July 1997, in late 1997 Papua New Guinea faced a formidable challenge posed by sharply falling commodity prices, which were the result of the East Asian financial crisis.

This involved very large falls in oil, gold, copper and log prices. The significant declines in both prices for and volumes of these exports in 1997 left PNG with a large balance of payments deficit by the year's end.

As in the case of several other countries in the region, the balance of payments crisis put significant pressures on our currency beginning in mid 1997, but particularly in the first half of 1998, resulting in 40 percent depreciation of the Kina.

In response, our Government introduced in July 1998, several bold measures to reinforce fiscal and monetary controls which had been built in the 1998 budget, in order to arrest further decline in the exchange rate.

Stability of the exchange rate has been achieved since late July with the Kina remaining within a band of 40-45 United States cents.

The Governors will also recall that PNG has continued to suffer from the ravages of nature in 1998. The tidal wave disaster that struck Ataipe in the West Sepik Province of Papua New Guinea further increased pressures on the Government's budget.

Furthermore, sustaining the encouraging peace initiatives on Bougainville Island has required substantial expenditures on rehabilitation and peace accords. Maximising the probability of peace will necessitate increased funding to the province to restore social and economic infrastructure.

In line with the mandate of our people, our new Government has initiated, and made significant progress, in putting in place the necessary legal framework to combat widespread corruption in the public sector, and to improve public service delivery. A draft bill to establish an Independent Commission Against Corruption (ICAC) is before the Parliament and the Government is committed to a bi-partisan support to make the Act effective.

Our Government has also taken major steps in unleashing economic potential of Papua New Guinea. A major reform of the tariff and excise tax system has been passed by Parliament to become effective on January 1, 1999. A second Value Added Tax legislation has been considered by the Parliament and awaits its third and final reading before the end of this year.

These are major achievements by any standards and are fully in line with the international trends in integrating Papua New Guinea into the global economy.

The Papua New Guinea Government is determined to further encourage and promote fair and equitable development as enshrined in the constitution through maintaining a stable macro economic environment and law and order. This commitment has been demonstrated repeatedly most recently by the Prime Minister Hon. Bill Skate's, visit to the IMF and the World Bank.

In addition to implementing policies designed to restore economic stability our Government has pursued policy dialogue with both the IMF and the World Bank with a view to obtaining a Standby facility together with a Social and Economic Development Program loan respectively. However, for the last two years PNG has been forced to go through a recovery path alone while many other countries with access to substantial private capital inflows have succeeded in receiving significant support from the Bretton Woods institutions. Furthermore my Government is confident we will emerge from the current "challenging period" with economic stability intact and an economic structure from which social development can rapidly progress.

Papua New Guinea calls on the World Bank and the International Monetary Fund to not limit their focus to addressing the problems of only the larger economies. The challenges faced by the smaller nations in the region are as real as those of larger countries. However, with the limited access of smaller and emerging economies in the Pacific to other sources of funding, the IMF and World Bank's failure to assist them could indeed result in unspoken social devastation and poverty.

Thank you, Mr. Chairman.