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Statement by the Hon. **LEONARD WILSON KAMIT** ,
Governor of the Bank and the Fund for **PAPUA NEW GUINEA**,
at the Joint Annual Discussion

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Governor of the Bank for Papua New Guinea,
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I would like to thank the President of the World Bank Group, Managing Director of the IMF, and the United States Government for hosting the 2007 Annual Board of Governors Meeting and for the warm welcome and hospitality given to us. We look forward to a fruitful round of meetings, sharing and discussing experiences and issues relevant to all of us.

I also convey my country's congratulations to Mr. Robert B. Zoellick on his appointment as the new President of the World Bank Group and to the in-coming IMF Managing Director, Mr. Dominique Strauss-Kahn. We thank the out-going IMF Managing Director, Mr. Rodrigo de Rato, in this, his last Annual Meetings for his support, guidance and stewardship during his tenure. The new leaders bring to our institutions a wealth of experience and I am confident they will continue to carry on the good working relationship with all member countries.

Papua New Guinea's macroeconomic performance has improved in recent years. This year (2007) will mark the fifth year in a row of economic growth, with growth now expected at 5.4 percent. While economic growth is at its highest rate in over a decade, we now face the challenge of sustaining and further improving our performance, as well as translating these gains into tangible benefits for our people. A strong and sustainable economic growth is also required to make a noticeable improvement in income per capita growth, given our population growth rate of 2.7 percent per annum.

Political stability has also improved over recent years, and this year, we held our first general elections using the Limited Preferential Voting system. The same Government, which held power for a full term (2002-2007), was returned to office in August 2007. With enhanced political stability, we now aim to sustain and grow the economy through removing impediments to growth and investment, and improving our physical infrastructure. The Government has continued with its medium term strategies – the *Medium-Term Fiscal Strategy*, the *Medium-Term Development Strategy* and the *Medium-Term Debt Strategy* – which provides a coherent medium term policy framework, maps out our future plans and builds on the gains achieved to date.

Papua New Guinea has benefited from the favorable global economic conditions and high international commodity prices. The country has pursued prudent economic, financial and fiscal management which have together, resulted in improved consumer and investor confidence in the economy. Recently, the international credit rating agency, Standard and

Poors upgraded its long-term foreign currency rating on PNG to B+ and long-term local currency rating to BB-. Our long-term growth prospects are also favorable.

Inflation has remained low, with the outcome in 2006 of 2.6 percent on a year-on-year average. Interest rates also remained low by historical standards while the exchange rate has remained relatively stable, with a slight appreciation against the United States dollar, although it has depreciated against the Australian dollar over 2006 and 2007. Foreign exchange reserves continued to increase to historical levels. We will continue to maintain the floating exchange rate regime, with intervention only to smoothen out short-term exchange rate volatility. The Bank of Papua New Guinea has been liberalizing exchange control regulations since September 2004, mainly to encourage easy flow of funds and improve investment in the country.

Papua New Guinea as a small, open and developing economy still face several risks to our economic outlook. These risks include any: down-turn in the global economy; fall in major export commodity prices; depreciation of our currency, especially against the Australian dollar; and natural disasters such as pests, frosts, floods, landslides, cyclones and volcanic eruptions.

In the fiscal area, expenditure controls and higher-than-expected revenues have resulted in continued budget surpluses since 2004. Public sector debt has declined from a high of 72 percent of GDP in 2002 to 39 percent of GDP in 2006 and should continue to decline. The Government plans to use the windfall revenues this year to repay outstanding debts and other liabilities, fund district improvement programs, as well as invest in priority infrastructure projects and maintenance aimed at boosting the productive capacity of the economy.

Despite these achievements, our challenges remain daunting. The increasing HIV/AIDS pandemic represents a threat to our population, while public health and education facilities need improving, and our transport infrastructure needs rehabilitating. We continue to face the challenge of raising the efficiency of public utilities to provide vital services to businesses and the population at large. We acknowledge that there is still more to be done in the years ahead to bring these utilities up to acceptable standards and performance, which are needed to provide affordable, reliable and efficient service to support private sector development in Papua New Guinea.

The Government of Papua New Guinea is making efforts to improve the delivery of public services, and is continuing with its reform agenda it started in 2003 under its broader public sector reform. The Public Expenditure Review and Rationalization process and implementation of its recommendations has had solid donor support including from the World Bank. The financial sector liberalization and reforms have

contributed to reducing business impediments, enhance competition and supported private sector growth. Reform work is also continuing in the trade and the public utilities.

We acknowledge our limitations and are therefore grateful to the continued assistance of our development partners. As we work towards building on our gains and growing the economy further, we seek the support, understanding and counsel of the World Bank Group and the IMF. By working together as partners, we can ensure that our efforts complement each other and are directed in the most effective way for the benefit of all of us. I therefore look forward to the discussions at this meeting and the insights of the participants.

To conclude, I would like to acknowledge and express my country's sincere gratitude to the management and staff of the World Bank and the Fund for their continuous support in Papua New Guinea's development efforts.