



BANK OF PAPUA NEW GUINEA

Address By
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The Annual Papua New Guinea Independence Day Oration
Parliament House Canberra Australia
26th November 2014

The Hon. Julie Bishop M.P, Minister for Foreign Affairs, Senior representative from the Australian politics, business sector, academies and media. Thank you very much for inviting me to deliver the Papua New Guinea Independence Day Oration, to such a distinguished audience. I am deeply honoured and pleased to be here and follow in the footsteps of previous speakers like Dame Carol Kidu and the Right Honourable Rabbie Namaliu.

I wish to commence my talk on the topic “Opportunities & Challenges for the PNG Economy,” by outlining some historical background. The thirty nine years of Papua New Guinea’s independence and economic history, can be divided into three distinct periods, of almost equal length.

Period 1 - From 1975 to 1989: PNG had fourteen years of stable low growth, with two minor shocks as a result of the oil crisis, but no major damage.

Period 2 - 1989 to 2002: The shock of the Bougainville crisis that wiped out 25% of Gross Domestic Product (GDP) and 35% of exports. The shock to the economy was huge. It lasted for relatively a very short time. The Misima and Porgera gold mines and the Kutubu oil field commenced production, and the Ok Tedi copper and gold mine moved out of its infancy. The losses due to the Bougainville crisis were more than covered by those new developments.

However, one thing stood out during these 2 periods. The strong performance of the economy did not translate to an improvement in the standard of living of the majority of the population. The economy was mis-

managed. In March 1994 the level of foreign exchange reserves could not serve the Government's foreign currency needs. The RBA Governor at the time, Bernie Fraser, arranged a very short term loan of US\$ 80 million, until a commercial bank loan was raised in June 1994 to repay it. In October 1994, we decided to float the Kina, to overcome major difficulties to serve the Nation's foreign currency needs.

I define this period as the first lost opportunity. The income generated from the mineral and petroleum projects, did not translate into sustainable development of the country.

Period 3 - 2002-2014; is a period of economic growth. At the later part of this period, the economy grew at a higher pace than in the countries defined as the economic tigers. Being a commodity based country like Australia, the commodity prices, both mineral and agricultural were the driving force behind the very high growth. From 2010, it was enhanced by the construction of the Liquefied Natural Gas (LNG) Project.

At the peak of the commodity prices boom the Government had K7 (A\$3) billion in Trust Accounts, as a result of budget surpluses. For Australia that has a budget of above A\$400 billion, it sounds small change. For us, with a national budget of K15 billion, it is a fortune.

While we can see a lot of new buildings in Port Moresby, and some other main centres, the wealth created did not filter down to where it is needed most, the rural majority.

The infrastructure, education, health, law and order continued to deteriorate. There was widespread lack of proper project management involving; planning, procurement, implementation and monitoring across Government agencies which contributed to this deterioration.

This is the second lost opportunity, to turn the tide and embark on a long term sustainable development path.

This changed in 2012, when the Government of the Hon. Peter O'Neill took office.

I am very encouraged by the priorities the present Government has set and the allocation of the very limited resources it has had. In a short period in the

office, this Government introduced the Free Education and Free Basic Health Care and funded them. The allocation to the Eighty Nine Districts was introduced and funded, funding of Local Level Governments and investment in infrastructure was increased, while law and order although there is still a lot to be desired, is improving.

Such bold moves to provide free education and health care taken by the current Government has helped it now to be able to assess the extent of the constraints in implementing these policies. For education, this relates to the number of teachers and classrooms, and associated training colleges for teachers. For health care, they relate to hospitals/clinics, doctors and nurses, and associated training colleges. The Government is addressing these related capacity issues and constraints through further sectoral and institutional reforms and budgetary allocations.

Effective use of the increased funding to the provinces continues to be a challenge, given the capacity issues at that level of government. It is interesting to note that whilst the Government wants most of these funds to be targetted to priority areas of health, education and infrastructure, the reality has been that they dont or remain intrust accounts.

Most importantly, it is only recently that the agriculture sector is getting the attention it deserves from Government. For the last few years I am advocating the development of the agriculture sector. It is the source of income for eighty five percent of our population. We are farmers for thousands of years and this is what we know how to do.

We have the land mass, the climatic conditions, wealth of experience as farmers. What we need is technological innovation and training to absorb and implement it so production can be sustained to withstand adverse climate changes, crop diseases and other natural adversities. We can become self-sufficient in food production in relatively a very short time. The aim should be to become a major exporter of food products, which is in short supply around the world, as well as in the region.

Given our per capita income at the present of around US\$2,000, agriculture can provide a steady increase in the standard of living for the great majority of the population, for many years.

Papua New Guinea is rich in natural resources. We are warned about the Dutch Disease Phenomena, that we might encounter as a result of the fast development of our non-renewable resources. The most efficient and productive way to counteract it is by developing the traditional production sectors. The only one that I can think about, in our case, is agriculture.

Education will improve the skills of future generations and enable industrialisation. We will have to go through the process that all the nations went through. To get there, we will have to ensure that we are setting the right priorities. In this regard the Government of the day is right by emphasising health, education in this order, as its two main priorities. The rebuilding and developing basic infrastructure is a must, for the agricultural development and the output to be delivered to the markets.

There is no doubt that Australia has all the skills and technologies Papua New Guinea needs to achieve its development objectives. The two Governments should join forces and decide on the way Australia can assist in, Papua New Guinea achieving its development objectives and goals. I have highlighted above some important challenges that PNG has and continues to face in its development agenda. No doubt, these challenges once overcome, will create more development opportunities for PNG.

It is time to revisit all the existing bi-lateral relationships, define clearly how you can assist us, in getting from where we are today, to where we think that we can be in the future. It should be a dialog in which, Papua New Guinea should set its priorities and Australia should propose how it can assist in achieving them.

In 2014, we were just given a very big third opportunity, to change the fortunes of the great majority of our population by the commencement of production of the LNG project. I hope we can ensure that this time we have hit, and not a miss.

The Government was running relatively large deficits in the last three years inclusive of the planned one for 2015, an average of 6% of Nominal GDP. This deficit was a must, if the Government wanted to meet its development priorities and targets of, free education, free health, infrastructure development, law and order, improvement on the trickling down funds to the 89 districts and the many local level governments, to ensure that some of the resources are spent where they are needed most, in the rural areas, where

the great majority of the population lives. The big change that this government introduced was, to get the money out of Waigani (where the government bureaucracy operates in Port Moresby), to where it is really needed. Many of us had our doubts about the success of such a move. The experience in the last two years is that, it did what was intended, successfully. I expect the Government to follow the Medium Term Fiscal Strategy of a low deficit in 2016 and a balance budget in 2017.

The negative effects of the relatively large deficits, are not reflected in the main monetary indicators. Inflation for the three years including the projected for 2015, and the last quarter of 2014 is estimated at an average of 5.5%. Given the high rate of estimated growth in Gross Domestic Product (GDP) of 7.6 % for the three years, the level of inflation is moderate. Money Supply increased by 6.6% and Credit to the Private Sector grew by 10.1%, at the same pace as in the years, prior to the period of the large deficits. The only real change was a reduction in the level of foreign exchange reserves, which was influenced by the sharp decline in the commodity prices, both mineral and agricultural and not by the budget deficit. This is expected to reverse itself, once the inflows from the LNG Project will start in the second quarter of 2015.

After satisfying the need of a Central Banker, to use some numbers in any presentation he makes, I will move to the last subject today, the Sovereign Wealth Fund. The Sovereign Wealth Fund is the tool that should balance between the Real Economy, Fiscal and Monetary developments, in the future.

I am very encouraged that the Government decided to establish the Sovereign Wealth Fund. The Organic Law was approved by Parliament in 2012, and the amendments have been prepared for Parliament first reading this week. The Sovereign Wealth Fund will have a Stabilisation Fund and a Future Fund. It will be managed by an independent board. The rules in respect to the depositing of Mineral and Hydrocarbon revenues, both tax and dividends, into the two funds is set by the Organic Law. The drawdowns from the two funds are also embodied in the Constitutional Legislation. The Sovereign Wealth Fund is a very good mechanism to control that. Whatever can't be efficiently and productively used, will be saved for the future generations. Such a mechanism was missing in the two missed opportunities, we have had. Let us hope that we learned the lesson and don't repeat our mistakes. Being a strategic partner, Australia can refocus its engagement

with PNG to ensure its development aspirations as contained in various long term policies and vision, are achieved.

I will be pleased to answer any questions you might have on the Papua New Guinea economy.

Minister Julie Bishop, thank you for inviting me to address the distinguished audience present here today. God Bless Australia, Papua New Guinea and our people.