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WORLD BANK GROUP

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INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
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Statement by the Hon. **SIR JOHN R. KAPUTIN**,
Governor of the Bank for **PAPUA NEW GUINEA**,
at the Joint Annual Discussion

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I would like to join my fellow Governors in congratulating Mr. Horst Köhler on his appointment as Managing Director of the International Monetary Fund, and Mr. James Wolfensohn for another successful year in office as President of the World Bank Group. I thank you for allowing me an opportunity to address the Annual Meeting of the IMF and the World Bank Group.

I would like to outline the economic experiences of Papua New Guinea in the period September 1999 to the present.

My country has taken great strides to improve the economic and general environment since the last change of government in July 1999. We have moved away from the lonely edge of an economic precipice where very few development partners were willing to come to our aid.

The economic and structural policies adopted subsequent to the new Government's coming into power cleared the way for fruitful discussions with the International Monetary Fund and the World Bank. Since coming into power, my Government has been working to improve the financial and economic stability of the Papua New Guinean economy and to improve the country's social indicators.

This time last year I was in Washington for continuing discussions with both the Fund and World Bank with the objective of obtaining their sponsorship of our structural reform programme. During this year, both institutions, following much achievement by the authorities, approved financial assistance with a Stand-By Arrangement and a Governance Promotion Adjustment Loan.

To give you some idea of our progress to date, I will mention only ten of the major structural changes that we have introduced since July 1999.

1. We instituted a major adjustment to the fiscal position, bringing the fiscal deficit onto a sustainable course. At end June 1999, the fiscal deficit was running at an annualized rate of 5% of GDP. By the end of 1999, we had greatly changed the fiscal course, ending the year with a deficit of 2.2 percent of GDP.
2. We carried out an assessment of the degree of transparency in our fiscal practices and published the report for all to see. Various recommendations of the report are largely presentational issues, and these are to be implemented in this year's presentation of the 2001 budget.

3. We enhanced the transparency and improved the efficiency of the use of development funds through new guidelines and management procedures for disbursement of our District Development Program. These were endorsed by the IMF and the World Bank in March 2000. In the remainder of this year, we will disburse the funds, focusing on building classrooms, aid posts in rural areas, and infrastructure maintenance.
4. We retired over K1 billion (approximately US\$400 million) of domestic debts between July 1999 and today. The resultant savings in debt service payments will free up resources for greater public investment in 2001. The settlement of debts with the private sector is helping to reestablish strong business confidence.
5. We restored and bolstered the independence of the Central Bank through the introduction of a new Central Banking Act. Prior to introduction of the new Act, we instituted a transparent and commercially based relationship between the Government and the Central Bank.
6. We enhanced the ability of the Central Bank to adequately supervise and regulate the financial sector through the introduction of an improved Banks and Financial Institutions Act. Systemic risk was reduced through the closing down of fast-money making schemes, while industry was fully consulted on the draft legislation to ensure consensus.
7. In mid-1999, Papua New Guinea's gross international reserves stood at only US\$89 million, or enough to cover less than one month of nonmineral imports. By mid-2000, we had rebuilt the reserve level to US\$254 million, or more than two-and-a-half months of non-mineral imports.
8. We introduced amendments to the Privatization Commission Act to ensure impartiality and transparency in our privatization process that has now been rejuvenated. To date, we have divested one major asset and fully expect to bring the state bank and associated companies to the point of sale by the end of this year.
9. We initiated a comprehensive public sector review to identify more appropriate and efficient structures for the improved operation of the Government. Much work has been done to date, and we will be incorporating a large volume of structural change in the 2001 National Government's budget. The Government in its two budgets to date has set out its priority sectors for funding. They are health, education, law and order, infrastructure maintenance, primary industry, and revenue-raising activities. Funding to these sectors has been increased in the two budgets to date.
10. We completed a National Health Plan designed, as a framework for the direction of funds, toward improving the health of Papua New Guinea's people. Our ultimate objective is to improve the welfare of our population through higher funding and improved targeting of funding. With assistance from the Asian Development Bank,

we have supplemented health funding for investment purposes and improved the efficiency of the use of funds.

We have achieved a great deal in a short period of time and have been supported by our development partners both morally and financially. In September 1999, the “Friends of Papua New Guinea Group of Countries” was established as a means of supporting our reform efforts. Of the Group’s member countries, Australia, Japan, and China have all financially assisted the National Government in its reform efforts. This assistance is greatly appreciated, and I take this opportunity to commend Papua New Guinea’s Friends for their support.

I also want to take this opportunity to thank all those involved from our two major international financial institutions for their expert advice and personal commitment. In this regard, I would also like to acknowledge the assistance of the Asian Development Bank.

Mr. Chairman, Papua New Guinea has many challenges ahead, not least meeting the conditionalities of the programmes with the IMF and World Bank. However, we believe the foundations for macroeconomic stability are in place. There is now a momentum to reform and great confidence that Papua New Guinea is on the path to achieving its potential in wealth and standard of living.

Thank you.