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*Macroeconomic crisis and structural  
reforms in Papua New Guinea*

*Agogo Muwali*

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## **a**bstract

Papua New Guinea enjoyed sound macroeconomic stability prior to the 1990s, however, in the past six years, this stability has been derailed twice. The first was caused by the closure of the Bougainville Copper Mine in 1989, and the second appeared to be a loss of control of fiscal management 1994. In each case, the macroeconomic policy response was quick and decisive and orthodox austerity measures were put in place to reduce the aggregate demand.

The years 1994 and 1995 were difficult for the Papua New Guinea economy. Following a 16.8 per cent growth rate in 1993, during the next two years financial instability overshadowed other economic problems. Although this crisis derived from budgetary mismanagement, the instability of the macroeconomic environment has tended to be crisis prone. Since independence 21 years ago, economic growth has been sluggish, occasionally rising sharply with the start of a major mine but tumbling precipitously after peak production of the mine.

The macroeconomic instabilities of the 1990s may turn out to be a blessing in disguise, if they result in policy reforms that address the problems of debilitating economic performance, and not just macroeconomic policy stability. They have served as reminder to the economic managers of the structural weaknesses of the economy and have indirectly forced the formulation of a comprehensive structural adjustment program in 1995.

# ***m*acroeconomic crisis and structural reforms in Papua New Guinea**

The objective of the paper is to throw light on the causes of the macroeconomic instability and to rationalise the urgent need for macroeconomic structural adjustment reforms.

The years 1994 and 1995 were difficult for the Papua New Guinea economy. Following a 16.8 per cent growth rate in 1993, during the next two years financial instability overshadowed other economic problems. Although this crisis derived from budgetary mismanagement, the instability of the macroeconomic environment has tended to be crisis prone. Since independence 21 years ago, economic growth has been sluggish, occasionally rising sharply with the start of a major mine but tumbling precipitously after peak production of the mine.

The immediate cause of the macroeconomic crisis was ballooning budget deficits in the first half of 1994. Desperate to maintain macroeconomic policy stability, the Government adopted an iron-fist fiscal discipline, stringent monetary tightening, tough wage restraint, and a drastic policy of weakening the currency. Realising that the overall macroeconomic problem extended beyond the fiscal crisis, the Government agreed with its donor agencies and countries, led by the World Bank, to put structural reforms in place. But, the relevance of some instruments of the adjustment policies was not immediately obvious and was questioned. Even the two main actors in the reform design and implementation have publicly aired some of their disagreements. As a result, it has been difficult to build social and political consensus to implement the reforms.

The macroeconomic environment has been substantially influenced by

- dependency on primary export commodities
- upstarts of major mines
- macroeconomic management policies.

Factors associated with these economic conditions have, in the past 21 years, caused macroeconomic crises. A macroeconomic crisis may be judged in terms of unsatisfactory economic performance coupled with mass unemployment or a deepening recession, high inflation, unfavourable balance of payments, or unsustainable budget deficits. In recent years, there were two macroeconomic crises, not far apart in time, but each occurring with a greater severity than those which preceded.

This paper discusses the macroeconomic crises in terms of deteriorating economic performance and macroeconomic policy outcomes, connecting them to structural policy reforms.

## **Economic performance**

Economic growth has been getting huge fillips from export production. First, it was depended on the exports of cash crops with fluctuating prices and insensitive supply responses. More recently it has been driven by mineral and petroleum exports. Sustainable growth, however, needs to come from more than the development of such exports.

Macroeconomic policy instability in the Papua New Guinea economy has emerged occasionally since independence, overshadowing the underlying problems. Overall macroeconomic performance has been the central problem. Production structure rigidities and development constraints have not permitted domestic supplies to satisfactorily respond to increasing domestic demand. The gap between domestic demand and output has been met easily by imports.

The export sector has performed better than rest of the economy. The primary exports are oil palm, coffee, cocoa, copra, tea, minerals and crude oil. Their success derives from producers' purposeful efforts, marketing organisation, and government incentives and encouragement. Export performance, however, has been influenced by fluctuating commodity prices and upstarts of major mines.

The manufacturing sector has remained relatively static since the 1980s. It comprises mainly assembly-type industries and processing industries which are heavily dependent imported inputs to create fixed domestic capital and feed the industries. This sector's performance is therefore very responsive to exchange rate policy, registering negative growth rates in the years when the exchange rate fell significantly.

Eighty-five per cent of the population is dependent on agricultural production, including fisheries and forestry employment. The sector is dominated by subsistence production and serves as a reservoir of labour for urban unemployment.

Growth of the gross domestic product (GDP) has been erratic and mineral driven. The upstart of major mining and petroleum ventures—Bougainville Copper Mine in 1974, Ok Tedi gold and copper mine in 1984, Misima gold mine in 1989; Porgera gold mine in 1990 and Kutubu oil in 1992—have boosted the GDP. However, most mine development impacts are short-lived. The production quickly peaks and then tumbles.

The nation's population has increased steadily at around 2.3 per cent per annum. In the past ten years, real per capita income has fallen despite the development of three large mines (Table 1).

Another disappointing aspect of post-independence performance has been employment growth. The statistical base for describing employment behaviour is poor. The Bank of Papua New Guinea and the Employers' Federation provide data from their annual and half-yearly surveys which are indicative of the employment situation. Unemployment is likely to be more than 20 per cent of the labour force, while urban unemployment may be well over 40 per cent of the urban labour force. Formal employment has not reached most households. Only about 300,000 people are in waged employment. Of this, some 20 per cent are employed by the public sector, the leader in absorbing the growth of the labour force. Down-sizing the public sector in 1994 and 1995 has meant aggravating the unemployment situation and reducing the ability of the private sector, which heavily depended on public sector contracts, to provide new jobs. The mining and petroleum industry has created limited job opportunities because of high capital-intensive mining operations and the supporting physical infrastructure development.

The overall economic performance judged in terms of GDP growth or formal employment growth has been crisis prone and chronically poor. Agriculture, fisheries and tourism, with abundant resources, have the potential to provide broad-based

**Table 1 Papua New Guinea's economic performance, 1989–95 (per cent)**

	1989	1990	1991	1992	1993	1994	1995
Employment growth (% exchange)	6.9	-4.7	-3.5	3.5	-2.6	6.7	-5.6
Real GDP growth	-1.4	-3.0	9.5	11.8	16.6	3.0	-2.9
Real per capita growth	-3.7	-5.2	7.0	9.3	13.9	0.8	-7.0

Sources: Asian Development Bank, 1994. *Key Indicators of Developing Asian and Pacific Countries*, Asian Development Bank, Manila; AusAID, 1996. *The Economy of Papua New Guinea, 1996 Report*, prepared by Economic Insights Pty Ltd, National Capital Printing, Canberra; Bank of Papua New Guinea, various issues. *Quarterly Economic Bulletin*, various issues, Bank of Papua New Guinea, Port Moresby.

industries for income generation and increased labour absorption. However, this has not happened because many factors inhibit these possibilities. Three main development constraints in Papua New Guinea are

- market size and the dynamics of demand
- transport infrastructure
- law and order.

The latter may partly derive from the failure to absorb the increasing population into productive activities. Anecdotal evidence suggests that when too many people, especially youth, are denied a legal means of earning a living they engage in illegal means to raise money or in turf-wars with the society. A large proportion of the population has developed a handout mentality, especially the landowners, and a small but significant number of people have embraced economic crimes with violence.

There are always development constraints inhibiting growth, but they can be mitigated by government policy. Thus, the most critical common determinant of continuing poor economic performance, especially in the non-mineral sector, has been the shortcomings of macroeconomic policy-mix and policy reforms.

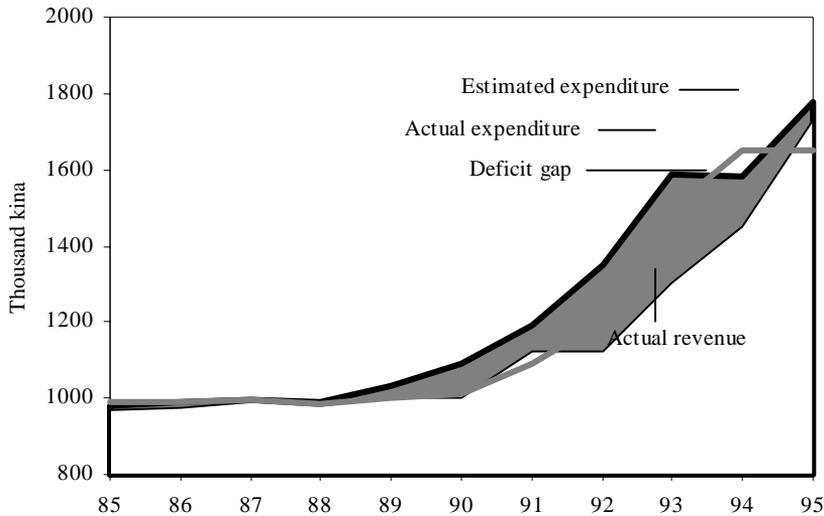
## **Behind the economic panacea of the period 1975–89**

Between 1975 and 1990 there appeared to be macroeconomic stability, resulting from seemingly sound macroeconomic management. There were budget deficits, but they were under control. In 1989 the budget deficit was only 1.2 per cent of the gross domestic product (GDP), and much lower percentages were recorded in the earlier years. Up to 1987, actual government expenditures were close to the intended expenditures. In the first half of the 1990s, however, the former exceeded the latter by wide margins (Figure 1).

Monetary policy was sound. Monetary management effectiveness is difficult to assess. Monetary stability, judged in terms of moderate inflation (especially in the second half of the 1980s and early 1990s) favourable external balance of payments, moderate interest rates and credibility in the financial markets, was achieved.

Similarly, the exchange rate policy may be hailed as effective. However, the reality was that throughout this period a 'hard kina' policy was in place and aimed at a limited goal—a convertible, stable kina and containment of imported inflation. Inflation was low to moderate. The upsurge in inflation to double digits in the late 1970s led to revaluations between 1976 and 1979. The first effective devaluation was in 1983, when the kina was allowed to fall with the Australian dollar when it was devalued by 10 per cent.

Figure 1 Papua New Guinea budget deficit gap, 1985–95

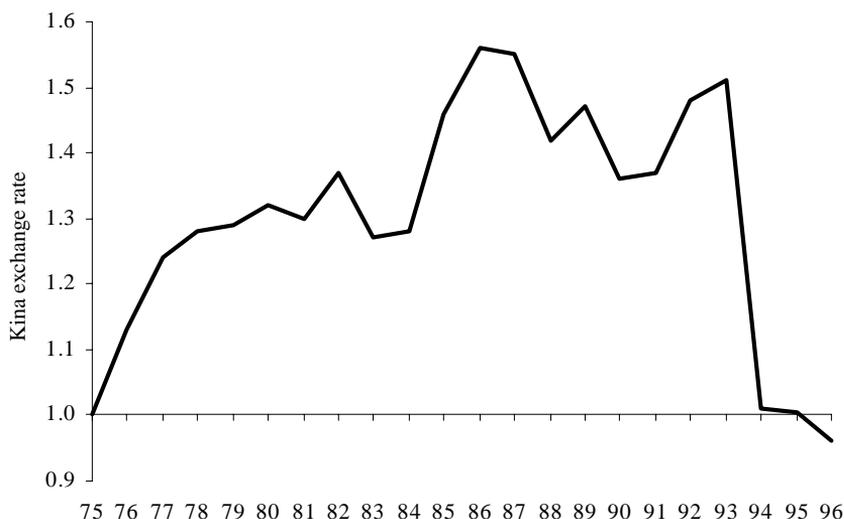


However, this did not mean that the hard kina policy was abandoned. From 1983 until 1993 the kina has gained against the Australia dollar through daily cross-rate exchange determination. During the period of revaluations (1976-82), the kina rate in terms of the Australian dollar averaged 1.26 annually. This rate jumped to A\$1.51 between 1985 and 1989. After a 10 per cent devaluation in 1990, it rose to A\$1.45 between 1992 and 1994, demonstrating a reversal of policy (Figure 2). Further devaluation accompanied by a structural adjustment policy was quickly abandoned because economic difficulties, anticipated following the closure of Panguna gold mine and low cash crop prices, did not occur.

For most of the period from 1975 to 1993, anecdotal evidence suggests that the kina exchange rate was overvalued against the currencies of its major trading partners because Papua New Guinea's productivity was generally lower and inflation was generally higher than in these countries (Table 2). Commentators are divided on this issue and on the effects of the hard kina policy (Gupta 1995; Dahanaykae 1982; Rao 1980 and 1982; Ganaut and Baxter 1984; Asafu-Adjaye 1996).

The hard kina policy was intended to dampen inflation, and was justified by the wage policy which indexed money wages to price levels. The policy-mix was inappropriate because it ignored the fundamental determining factors—productivity and inflation.

Figure 2 Papua New Guinea kina exchange rate, 1975–96



Both were, respectively, lower and higher than those of the major trading partners. It also ignored the strong kina's potential to check the growth of the export sector, adversely affect the balance of trade, constrain a widening of the economic base and, in general, hurt the development needs of the country. This policy also contributed to the high cost structure, thus hampering the development of Papua New Guinea economy.

The shortcomings of macroeconomic policies were either not obvious or were ignored before the Bougainville crisis in 1989. But even then macro-policy reforms, except *ad hoc* measures, were further delayed until the next macroeconomic crisis.

### The Bougainville crisis

The Bougainville Copper Mine has had a significant impact on the economy. In the last full year of its operation, Bougainville Copper Limited (BCL) contributed 16 per cent of government revenue, 35 per cent of export receipts and 8 per cent of GDP.

In 1990, the following macroeconomic policy measures were taken to alleviate the adverse effects on the economy of the closure of BCL and low, prevailing tree crop prices

Table 2 Landmarks of the kina exchange rate, 1975–96

End of period	A\$	US\$	Yen	DM	UK
1975	1.00	1.26	383	3.29	0.62
1976	1.13	1.23	361	2.90	0.74
1980	1.31	1.55	315	3.04	0.65
1983	1.27	1.05	265	3.32	0.70
1989	1.46	1.16	166	1.96	0.72
1990	1.36	1.05	141	1.56	0.54
1993	1.50	1.01	131	1.76	0.65
1994	1.09	0.91	84	1.40	0.57
1996	0.96	0.75	82	1.13	0.52

Source: Bank of Papua New Guinea, various issues. *Quarterly Economic Bulletin*, Bank of Papua New Guinea, Port Moresby.

- a net reduction of nearly 80 million kina of government expenditures
- 10 per cent devaluation
- tight monetary policy
- wage restraint that resulted in a real wage reduction (Elek 1991).

These stabilisation efforts appeared to be successful. The budget deficit was reduced from 100.3 million kina in 1990 to 64.6 million kina in 1991; real GDP growth rose from -3.0 per cent in 1990 to 9.5 per cent in 1991; and consumer inflation fell from 7 per cent in 1991 to 4.3 per cent in 1992. However, not all these achievements resulted from the policy measures that were put in place. For example, significant economic growth improvement in 1991 was due to the impact of the first full year of operation of Porgera gold mine.

### Macroeconomic policy expansion, 1992–94

After the closure of the Bougainville copper mine, followed by the introduction of austerity measures in 1990, there was a welcome respite of sound macroeconomic management. However, from 1991 to 1994, there was serious slippage in the control of spending which spilled over into destabilisation of foreign exchange and monetary policies.

Over the period 1992 to 1994 macroeconomic management was loosened. Ironically, economic growth was highest between 1991 and 1993 and should have improved tax receipts and reduced budget deficits. The 1994–95 macroeconomic crisis derived from the government's spending binge.

First, from 1990 to 1993, the government incurred a deficit of more than half a billion kina. Unplanned expenditures formed nearly 50 per cent of the total deficit. On the other hand, government revenues had grown steadily, reflecting the favourable impact on the budget of good economic performance between 1991 and 1993. However, the budget deficit grew from 1.3 per cent of the GDP in 1989 to 5.9 per cent in 1993. Despite sound trade performance, external debt sharply deteriorated. The stock of foreign debt rose from 843.1 million kina at the end of 1989 to 1.5 billion kina in 1994. External loan servicing was absorbing nearly 30 per cent of total exports and foreign exchange reserves were drained to 112.2 million kina in 1993, representing only one month import cover. The overall public debt nearly tripled during this period, leading to virtual financial insolvency in 1994.

Second, from 1992 monetary stability began to be threatened. Between 1992 and 1994, the monetary stance not only accommodated fiscal over expansion, but it was also loosened. The *Central Bank Act* limits the Bank of Papua New Guinea's (BPNG) holdings of treasury bills to 20 per cent of ordinary revenue or, by the order of Minister for Finance, 25 per cent for a limited period six months. The Act also limits the amount of net financing to 10 per cent which can similarly be raised to 12.5 per cent of the revenue. Both ceilings were exceeded by the end of 1993.

Furthermore, in 1992 and 1993, the commercial banks were ordered by the Minister for Finance to lower their interest rates. The rates had fallen since September 1992, but the government was not impressed. On 20 September 1993, the Minister for Finance evoked a provision in the *Central Bank Act* 'out of necessity' to order the commercial banks to further reduce interest rates. Subsequently the weighted average deposit rate and the lending rate, respectively, fell to 3.3 per cent and 9.0 per cent in June 1994, from 8.8 per cent and 14.6 per cent respectively, in September 1992.

Prior to this period, the monetary authorities maintained, to a certain degree, an open and market-oriented financial system. The commercial banks were free to determine their interest rates, keeping the range of the lending rate from the deposit rate, on a weighted average basis, to 5.25 per centage points.

Third, there was no clear sign of the government's exchange rate policy during these macroeconomic expansionary years. From the 1990 devaluation to the next devaluation in 1994, the kina appreciated against about half the currencies of Papua New Guinea's major trading partners, including the Australian dollar, the UK pound and the deutschemark. Considering that more than half of Papua New Guinea's imports were

sourced from Australia, Britain and Germany this meant that the appreciation of the kina was, by default, a contributing factor of the macroeconomic policy expansion.

## **The 1994–95 crisis**

The latest macroeconomic crisis surfaced in early 1994. It was caused by loss of control of budget deficits, exposing and throwing macroeconomic policies into disarray. Budget deficits did not suddenly appear and mushroom—they were in the making for a long time.

Several factors which pre-date the crisis have contributed to the growing budget deficit until 1994. Among these are

- a colonial legacy of running an expensive administration
- the closure of the Bougainville Copper Mine in 1989
- a slump in tree crop commodity prices
- declining Australian budget support and foreign grants
- natural disasters.

However, the most far-reaching factors have been government made. Bloated government expenditures in recent years have been the product of unplanned spending, and populist policies such as free education, an increased 'slush fund' and the Village Services Program.

The government's spending binge reached a crisis when there was a deficit of 163.4 million kina in the first quarter of 1994, compared with a 39.4 million kina deficit in the corresponding period of 1993. The deficit for the March quarter of 1994 plus the amount required to repay overseas debts amounted to 186.6 million kina and was domestically financed by 41 million kina from the Central Bank, 129.7 million kina from government securities which were bought from the commercial banks, and 20.6 million kina from the non-banking system.

The deficit of 277.5 million kina in the first half of 1994 exceeded the estimate for the whole year. This translated into an annual rate of 16 per cent of the GDP, which is significantly higher than the annual rate of 5.6 per cent in 1993. A cash flow problem emerged, because the Treasury was nearly empty. The government's reliance on domestic sources for deficit financing led to increasing excess liquidity in the banking system and to draining the foreign exchange reserves. Treasury bill rates were later raised to 21 per cent to finance the public debt.

Tough measures to correct the government's overspending and its attendant problems were taken. These measures included tightening fiscal and monetary policies, stringently controlling expenditures and lowering the foreign exchange rate.

- A mini-budget was introduced on 8 March 1994 and aimed at cutting expenditures by 545 million kina, raising revenues by 81 million kina and consequently reducing the estimated budget deficit from 242 million kina to 191 kina million.
- Between July and August 1994, the following expenditure controls were put in place: all government cheques, except those for salaries, had to be presented to and cleared by the Department of Finance; overdraft facilities to finance recurrent expenditures were halted; and an Executive Expenditure Controls Committee was set up by the Cabinet to monitor the expenditures.
- On 12 September 1994, the kina was devalued by 12 per cent and a free-floating exchange rate policy was adopted in 10 October 1994. In August 1995, screen-trading was introduced in order to facilitate inter-bank trading in the kina, stabilise the fast declining rate and restore investors' confidence in the currency.
- The Minimum Liquidity Assets Ratio was raised three times between September 1994 and March 1995, from 11 per cent to 32 per cent, and the Central Bank's discount facility was discontinued from September 1994. Consequently, interest rates rose.
- In November 1995, a Supply Bill was introduced for the first quarter of 1995 as the government was not ready with the 1995 Budget. Further budgetary expenditure restraints and revenue increases were introduced.
- In June 1995, there were cuts in appropriations to some government departments. These reductions represented an expenditure shift rather than a total expenditure cut. The appropriations from the Department of Transport, primary health and lower-level education were augmented.

These measures have dramatically improved the fiscal operations since 1994. The budget deficit was 124 million kina at the end of 1994, compared to 272.6 million kina at the end of 1993. This was further reduced to 31.8 million kina in 1995, compared to the estimated 58.1 million kina, representing one per cent of the GDP.

The 1994 deficit was approximately half of what was estimated, and for the first time since 1987, actual expenditure was lower than the estimated expenditure (see Figure 1). A further improved budget performance was reported in 1995.

## **Policy reforms**

It was feared that the 1994-95 macroeconomic restraints would merely restore macroeconomic policy stability. In the late 1980s, before the Bougainville crisis, fiscal, exchange rate and monetary policy preserved a stable financial environment. External aid was plentiful, public debt was light, trade was open, external reserves were adequate and the kina was strong and relatively stable—all of which maintained investor confidence. However, a return to this apparent economic paradise was

unacceptable in the mid-1990s because of its limited capacity to enhance income generation and employment creation for many households.

In the earlier period many factors influenced the economy.

- Economic growth of the non-export sector was dominated by subsistence production.
- Some 85 per cent of the population depended on agricultural production.
- Skilled and higher-level manpower was grossly inadequate.
- Limited employment opportunities existed in the formal sector.
- The unemployment rate, especially in the urban areas, was high.
- Domestic markets were small and fragmented.
- The cost structure of the economy was high.
- The critical business development constraint was availability of land.
- Resources, especially forests, were exploited with no thought for environmental damage or sustainable development.

Virtually the same factors exist in 1997, and there is an urgent need to lay a foundation to tackle all these problems. The spread effects of mineral and petroleum development on the rest of the economy have been limited.

**Table 3 Papua New Guinea budget estimates and operations, 1984–95**

	Estimated expenditure	Actual expenditure	Estimated revenue	Actual revenue	Actual deficit
1985	16,29.5	17,55.3	15,71.7	17,23.5	-31.8
1994	16,32.9	15,70.4	13,90.1	14,45.5	-124.9
1993	14,91.4	15,88.6	13,31.0	13,15.5	-272.2
1992	12,45.3	13,57.8	11,99.5	11,26.4	-231.3
1991	11,39.6	11,87.7	10,80.1	11,23.1	-64.6
1990	10,82.3	10,89.1	10,86.2	988.8	-100.3
1989	10,78.5	10,23.9	10,07.8	992.8	31.1
1988	906.1	914.3	883.3	884.1	-30.2
1987	865.7	886.2	844.3	848.9	-37.3
1986	844.5	837.1	794.1	744.5	-92.6
1985	850.6	762.6	728.3	728.3	-34.3
1984	776.9	745.6	673.0	702.5	-42.1

**Source:** Bank of Papua New Guinea, various issues. *Quarterly Economic Bulletin*, Bank of Papua New Guinea, Port Moresby.

For example, the blistering economic growth of the early 1990s, propelled by mineral and petroleum development, has not led to any ostensible national development. It appears that the mineral wealth and petro-dollars have vanished into thin air. Even before the end of the first half of this decade, the people of Papua New Guinea were suffering substantial hardship, including

- shrinking real incomes
- a weakened domestic currency and loss of confidence in it
- retrenchments
- a deteriorating and almost unusable physical infrastructure
- diminishing education and health facilities which were already grossly inadequate
- unsafe streets
- unprotected business and pleasure environments.

The job opportunities created by mining and petroleum development have been limited these are capital-intensive operations producing raw commodity exports. The incidence of youth unemployment is highest in the 14–20 age group. This represents a colossal waste of human resources, and may also contribute to the high incidence of crimes committed by youths. It would require more than just deregulation of minimum wage fixation to substantially reduce open unemployment.

Dealing with these development problems and issues requires a comprehensive structural reform program aimed at

- improving the macroeconomic environment
- opening up markets
- strengthening the public and financial sectors
- building institutional capacity
- encouraging competition
- restoring business confidence while protecting the environment
- restructuring social services by diverting funds and delegating more responsibilities to non-government organisations.

Achieving any one of these objectives requires an undertaking of reform programs. For example, competition may be enhanced through domestic deregulation, trade liberalisation and the privatisation of public enterprises. Competition itself is a means to other ends. Competition induces high productivity, forces firms to become more efficient and brings about fair prices.

The reforms have drawn on successful experiences elsewhere, taking Papua New Guinea's particular circumstances into account. In the 1950s and 1960s, Taiwan, Hong Kong, Singapore and the Republic of Korea abandoned inward-looking policies and adopted export-promotion policies, which turned out to be successful. These four countries became known as newly industrialised countries (NICs). The success story of the NICs has not only been attributed to outward-oriented trade policies but to

other factors such as sound macroeconomic management and human resource development. People all over the world as well as international organisations concerned with development issues and problems took notice. The interest generated by the NICs' approach to development has led to a paradigm shift in economic policies (Urata 1994).

Before this shift, developing countries which had suffered from balance-of-payment deficits, external debt burdens or high domestic inflation, employed stabilisation policies commonly referred to as International Monetary Fund (IMF) conditionalities. They were mainly demand management policies, comprising austerity measures, devaluations and wage restraints or freezes. They never worked satisfactorily; the problems kept recurring. IMF conditionalities treated the manifestations of structurally endemic problems of poor economic performance, inflation, or problems associated with inappropriate industrialisation or import-substituting policies.

Following the NICs' development strategy led to supply-side factors being equally emphasised to stimulate exports and/or production of non-tradeable commodities. Governments, however, have found it difficult to initiate and implement unilateral structural adjustment policies that impose economic hardships or change traditional ways or doing things.

The International Monetary Fund and the World Bank have had little success in soliciting the cooperation of governments of developing countries to implement structural adjustment reforms except in times of economic crisis. They seize the opportunity to impose a Structural Adjustment Program (SAP) when they are asked to bail-out developing countries experiencing a financial crisis.

It is difficult to build a strong social consensus on a reform package that imposes economic hardship on a population, or to implement reform when there are powerful vested interests. The Papua New Guinean Government has voluntarily recommended or agreed to all except a few structural adjustment reforms, such as forestry, land and reserved activities reforms (see Appendix 1 for a summary of Papua New Guinea's structural adjustment program). Unlike the macroeconomic policy measures introduced since March 1994, these are not 'quick fixes'. It will require political will and persistence to implement many of the reforms. Policy flexibility will be required to overcome the hurdles of others, such as customary land reform which may be more gradually accomplished in a market framework, rather than through a legislative framework only.

## Concluding remarks

The main factors hindering a full execution of the policy reforms lack of political will, public resistance or interest group resistance and policy inflexibility. Already there are examples of implementation problems.

First, the political leadership in June 1996 passed a law giving powers to the Forestry Minister to undermine the provisions of logging reforms in the structural adjustment program. Second, students have mounted strong opposition to the user-pay policy in the delivery of health and education services throughout the country. Third, land registration reform has ground to a halt because the method chosen to implement it encountered stiff resistance. On his first leg of a campaign tour to explain a land mobilisation program (LMP) the lawyer contracted by the state abandoned this task when his life was threatened in Wabag. Demonstrations mounted against the land reforms were held by University of Papua New Guinea students and some soldiers joined. The Lands and Physical Planning Minister promised the protesters that the LMP would be stopped. Since then nothing has been done.

It seems that Papua New Guinea enjoyed sound macroeconomic stability prior to the 1990s, however, in the past six years, this stability has been derailed twice. The first was caused by the closure of the Bougainville Copper Mine in 1989, and the second appeared to be a loss of control of fiscal management 1994. In each case, the macroeconomic policy response was quick and decisive and orthodox austerity measures were put in place to reduce the aggregate demand.

The macroeconomic instabilities of the 1990s may turn out to be a blessing in disguise, if they result in policy reforms that address the problems of debilitating economic performance, and not just macroeconomic policy stability. They have served as reminder to the economic managers of the structural weaknesses of the economy and have indirectly forced the formulation of a comprehensive structural adjustment program in 1995.

AudAID (1996) identified the factors undermining the implementation of structural reforms. Overall, factors such as boosts from mineral explorations, upstart of major mines and favourable export prices rather than sound economic policies have produced growth in a perennially weak economy.

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## Appendix 1

### World Bank/International Monetary Fund structural adjustment program for Papua New Guinea

1. **Macro-targets:** Revise macro-targets to achieve macroeconomic stability.
2. **Exchange rate:** Maintain competitive and market determined rate.
3. **Budget transfer:** Eliminate budget transfers to all commercial statutory authorities.
4. **Wage freeze:** Maintain wage freeze, April 1995–December 1995.
5. **Public sector labour shedding:** Finalise and implement retrenchment plan, improve personnel management systems, payroll controls, and so on.
6. **Abolish statutory minimum wage:** Repeal legislation and leave to market forces.
7. **Restructure the Department of Finance and Planning:** Review OIDA, budgets, loans revenue, public accounts, and create a national planning arm.
8. **Make adequate counterpart funding available:** Make adequate provision for 1995 and 1996.
9. **Implement tariff/indirect tax study:** Implement in 1996 budget.
10. **Reserved activities:** Abolish remaining reserved activities.
11. **Repeal regulations to Investment Promotion Authority Act:** Repeal regulations.
12. **Decontrol remaining domestic prices:** Decontrol all remaining problems except utilities and petroleum products. Repeal Chapter 430 and abolish price control unit.
13. **Complete privatisations:** Finalise sales of Ramu Sugar and Forest Products and do not take equity in Phase II of Halla Cement.
14. **Land reform:** Complete framework legislation for customary land registration. Complete registration in East New Britain and East Sepik Provinces.
15. **Investment approvals/incentives/roles of Investment Promotion Authority:** Discontinue government (including IPA) approval for projects. No special tax, duty, or monopoly incentives to developers. Limit role of IPA to promotion.
16. **Tax incentive policies:** Introduce tax incentive policies into tax/customs legislation.
17. **Forestry issues**
  - (a) maintain powers to the Forestry Board (not the Minister)
  - (b) ensure that landowners get a minimum of 20 kina per square metre for logs in excess of 100 kina per cubic metre (hold part in trust funds)
  - (c) ensure that all new licences meet sustainability criteria
  - (d) continue to fund the National Forest Authority and SGS (PNG) in 1995 real terms.

18. **Coffee/livestock and other industry corporations:** Make financial autonomous by December 1996. Refrain from establishing new corporations. Consolidate/merge Coffee Industry Corporation and Oil Palm Industry Corporation.
19. **Domestic market reforms:** Fully liberalise produce marketing, processing, and abattoir activities.
20. **Rural Development Bank debt:** Develop and implement a rescheduling of plantation debt.
21. **Price support:** Require industry corporations to assume responsibility for price support/stabilisation.
22. **Expenditure targets/planning:** Achieve targets for 1995. Agree with the World Bank on targets for 1996–1989. Provide adequate funding for the Social Fund.
23. **Shifting resources to local authorities:** Shift manpower/financial resources from national and provincial levels to local authorities for re-education, health care and extension. Give autonomy to local governments to hire and fire.
24. **Autonomous non-government organisation funds:** Set up for 4 to 5 million kina.
25. **Health reforms:** Close/sell underutilised health services. Encourage provincial health boards, including the churches. Introduce further cost recovery in the 1996 Budget. Introduce higher health fees for outpatients and new procedures for pharmaceutical sales.
26. **Tertiary cost recovery:** Introduce further cost recovery in the 1996 Budget. Introduce a system of student fees/loans.
27. **Public sector reform:** Prepare an action plan for reform, including Finance, Agriculture, Health, Higher Education, Trade, Industry, Tourism, Transport, Works, Energy, and Environment.