Economic survey

Beyond 1999—some certainty for Papua New Guinea?

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In this paper, the issues of growth, interest rates, domestic spending, employment and wages are more closely examined. The performance of the Morauta Government is analysed to date, along with its prospects for improving Papua New Guinea's economic performance. This paper is a shortened version of '1999—another year of uncertainty for Papua New Guinea' published online at http://ncdsnet.anu.edu.au/

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Papua New Guinea continues to live up to its signature motto 'the land of the unexpected'. 1999 began with mineral and oil prices down, no agricultural income, and a rapid fall in reserves and in the exchange rate of the kina against the rest of Papua New Guinea's trading partners. Interest rates rose sharply and continued to rise as the government moved heavily into the domestic loan market to finance its burgeoning deficit.

In desperation it sought off-shore funding to shore up its ailing currency, culminating in the extraordinary announcement that Papua New Guinea would recognise Taiwan as a sovereign country and, in exchange, receive assistance to the tune of US$2.5 billion. Both the Taiwanese and PNG governments maintained that the two events were not linked and that Papua New Guinea would not have to part with, or pledge, any of its resources as a *quid pro quo.*

In mid July the government changed and Sir Mekere Morauta became Prime Minister. Even this event had its bizarre twist. After the resignation of Bill Skate as Prime Minister, the Speaker, John Pundari announced that he was forming a new political party and would resign from the post of Speaker. This meant that the election of the new Speaker should have shown which political grouping—the government of Mr Skate or the Opposition who had coalesced under Sir Mekere—had the numbers to form government. The vote was taken and the government's candidate Mr Iairo Lasaro won by a comfortable 57 votes to 45. Twenty four hours later the Opposition candidate Sir Mekere Morauta won the Prime Ministership by 99 votes to 5.

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The new government announced that it had five main objectives in achieving its goals of 'National Reconstruction and Development'. They were

- restoration of confidence in the public service
- stabilisation of the exchange rate
- restoration of stability in the budget and to ensure that essential services are adequately funded
- removal of obstacles to investment and growth
- continuation of the Bougainville peace process.

The new government proceeded to re-engage with the World Bank and the IMF as well as turn to Australia and some of Papua New Guinea's APEC neighbours for assistance. Officials were despatched to China, South Korea and other countries to seek assistance. The Prime Minister, who is also the Treasurer, met with the Australian Prime Minister on his way to Auckland for the APEC meeting in August. A further series of meetings were held with the 'Friends of Papua New Guinea' during the APEC meeting. Papua New Guinea was seeking a commercial bridging loan to tide it over the period until World Bank / IMF concessional funding would become available.

The mini-Budget brought down in August 1999 reversed many of the previous government's decisions and introducing new revenue measures (see Harden and Sugden, this issue). This served to clearly signal the change in course and management of the economy.

In early October Australian Prime Minister John Howard visited Papua New Guinea. During that visit an emergency assistance package was released. This was a standby facility for the Bank of Papua New Guinea of US$80 million (approx K233 million)[1] which would be used initially to retire government domestic debt. This facility is conditional on IMF and World Bank approval of the 2000 Budget and progress toward the adjustment package which had been agreed by the Chan and Skate governments (Manning 1997).

The short-term effect of the Australian announcement has been to stabilise and gradually improve the exchange rate of the kina against both the Australian and US dollars.[2] This appears to be caused by an improvement in confidence and exporter fears that the currency will continue to improve. Both will encourage a more speedy return of off-shore funds.

The 'Friends of Papua New Guinea' group will meet in Papua New Guinea in early November 1999 at the same time as the annual donor's meeting. It is expected that they will be forthcoming with additional bridging finance at commercial rates of interest. Whilst Papua New Guinea still has to prove that it has the political will to make the necessary changes to ensure its economic future, the preconditions are there for that to happen.

Corruption

Corruption continues to be a major problem in Papua New Guinea at all levels of government. It ranges from petty corruption of minor officials to the regular exposure of deals that involve millions of kina. Senior government and semi-government officials are appointed to jobs for which they have no training and no background. They are replaced at will, often after short periods in office with contract payouts in the hundreds of thousands of kina. In an extreme case a manager was dismissed and paid out a reported K700,000 only to be reinstated two weeks later to the same job and (presumably) on the same salary and conditions.

There have been no new prosecutions of leaders for leadership breaches since the last election in 1997, the Independent Commission Against Corruption (ICAC) has stalled at the National Executive Council level, and yet newspapers report almost daily of excesses and abuses of power. Recent reports about misuse of money at the National Capital District Commission ran into millions of kina paid to fictitious companies for work never completed (*The Independent*, 9, 23, 30 September 1999).

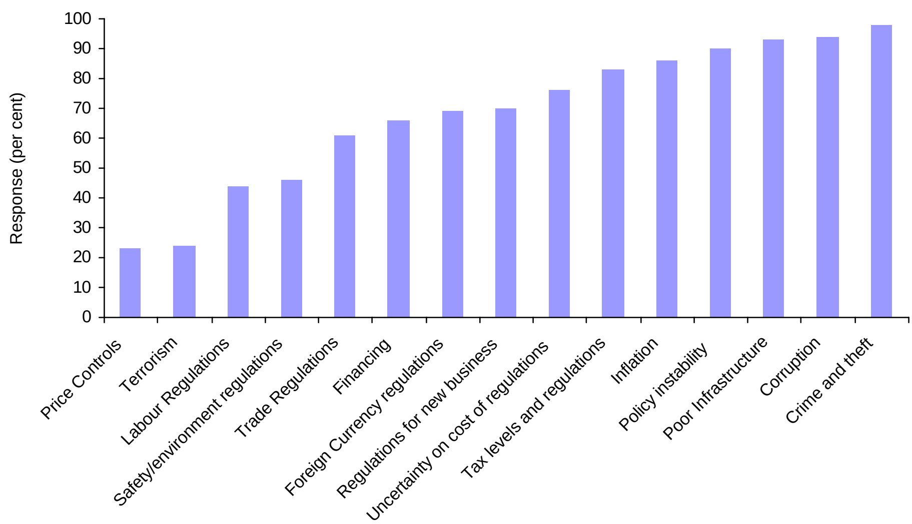
In August 1999 the Institute of National Affairs (INA) published results of a survey it had carried out in conjunction with the World Bank on constraints to doing business in Papua New Guinea (see Figure 1 and Manning 1999). This survey of 130 firms throughout Papua New Guinea showed two alarming trends: (1) that things had got much worse over the last ten years, and (2) that, in comparative terms Papua New Guinea was perceived to be as bad as any other country in the world.

Bougainville

In 1989 Bougainville provided about one third of the national budget and was the largest single source of internal revenue. It was also the largest exporter of cocoa and copra and a significant exporter of timber and marine products. These economic activities virtually ceased in 1989. Since then the civil war has been a considerable drain on the resources of the PNG government.

A major achievement of the previous government was to secure a ceasefire on Bougainville. Assisted by the New Zealand and Australian governments, conferences were held in New Zealand which lead to the ceasefire. The political situation is still very far from clear, however Special Bougainville Affairs Minister (and Minister for Foreign Affairs) Sir Michael Somare recently announced that he had agreed to grant the troubled province virtual

Figure 1 **Obstructions to business in Papua New Guinea, in order of importance**



Source: Manning, M., 1999. *Obstacles to Doing Business in PNG—a private sector survey*, Institute of National Affairs, Port Moresby.

statehood with responsibility for its own affairs, except international relations, police and defence (*National,* 7 October 1999). Bougainville currently receives K32 million per annum, which is about 5 per cent of the funding of all provincial governments. Apart from the funding of the Office of Bougainville Affairs (K1.2 million p.a.), this money is currently sourced in aid from the Australian and New Zealand governments, the European Union, UNDP and many smaller aid agencies.

Much of the aid being provided to Bougainville is for the reconstruction and restoration of services and infrastructure. The substantive issue of future funding arrangements for the island has not yet been finalised and will have a major impact on the financial affairs of the Papua New Guinea government.

Provincial government

The provincial government reforms are proving both expensive and unwieldy. In the mini-Budget a sum of K588 million has been allocated to provinces, representing about 40 per cent of the total amount available for government services (Papua New Guinea 1999).[3] The perception is that this system, which was designed to deliver services down to the district and local level government is not working well because of a lack of training at that level of government and, in many cases, lack of basic infrastructure such as offices and phones.

In addition, approximately K1.5 million per member totalling K133 million has been allocated to members of parliament in various ways for expenditure on their electorates; a further K500,000 has been allocated to regional members (who are generally the governors). These grants have grown from a small amount of discretionary funding under the Rural Assistance Programme in the 1970s. One of the conditions of World Bank funding is that the grants be made fully transparent and accountable.

Development indicators

Papua New Guinea has enjoyed an unprecedented flow of riches from mineral and petroleum finds during the 1990s. In 1995 the output was valued at K2,435 million and made up 72 per cent of total exports. Real per capita income is estimated at US$2,654 which places Papua New Guinea at the lower end of the middle-income countries of the world. But income is very heavily skewed to formal sector employees and the country ranks 129 out of 174 on the United Nations Development Programme human development indicators (UNDP 1999a). Papua New Guinea will shortly release its own human development indicators which will provide comparisons between provinces within the country.

There is ample evidence to show that this low ranking is not exaggerated. The Secretary for Health recently reported that almost one third of the country's aid posts were closed for one reason or another. The Aitape health centre had closed the day before the Tsunami hit the area in 1998 due to lack of funds. Funding for schools in remote areas is precarious and maintenance of infrastructure is almost non-existent. The government made a record allocation of K70 million in the 1999 Budget for maintenance of national assets, especially the Highlands Highway. At the end of July, K47.3 million had been allocated and of that 53 per cent or K25 million had been allocated to the Central Province (16 per cent) and the National Capital District (37 per cent). This figure included a payment of K6 million, which was distributed to certain members prior to the formation of the new government (Consultative Implementation and Monitoring Council 1999).

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The PNG budget is split into two parts, the recurrent budget and the development budget. The development budget contains all of the aid and concessional finance the country receives, PNG counterpart funding and new projects to be funded by the government. The mini-Budget recognised that the government would be unable to spend this money and virtually erased it from the books. For many years Papua New Guinea has been unable to spend the money available to it for development (Manning 1997). Until capacity is built up at provincial and local level governments, the situation cannot be expected to improve. (For a discussion of the 1999 Budget, see Harden and Sugden, this issue.)

Domestic funding

Despite its announced intention to hold domestic borrowing to K5.3 million, the Skate Government soon found itself borrowing heavily. It had to finance the salaries and conditions of the to-be-retrenched 7,000 public servants still on the payroll and it was not receiving the expected income from commodities. By 30 June 1999, domestic borrowing had reached K195 million of which K130 million was financed from new Treasury Bills. The domestic financing requirement was financed from the non-banking system (K107 million), the banking system (K51.7 million) and other sources (K39.5 million).

Liquidity was restricted by maintaining the Cash Reserve Requirement (CRR)[4] until March 1999 when it was reduced to 5 per cent and the Minimum Liquid Asset Ratio (MLAR) reintroduced at a rate of 15 per cent.[5] This put extreme pressure on interest rates for Treasury Bills, which peaked at over 28 per cent. The government was technically in breach of the Central Bank Act during the latter part of 1998 and early 1999 because its borrowings exceeded 25 per cent of estimated internal revenue. As a result of this the World Bank has renewed its call for legislative changes to ensure the independence of the Bank of Papua New Guinea.

Value-added tax (VAT)

On 1 July 1999 a VAT was introduced as part of a broader indirect tax reform aimed at bringing Papua New Guinea in line with its commitments to the World Trade Organization (WTO) and Asia Pacific Economic Cooperation group (APEC). The tax was set at 10 per cent and allowed a minimum of exemptions including school supplies, medical supplies and services and public motor vehicle (PMV) fares. This tax was deferred from the introduction of the 1999 Budget due to political pressures and fears that it would be inflationary.

The deferral meant that the Internal Revenue Commission (IRC) had to abandon its education and information program begun in mid 1998. It was not until April 1999 that it again received funding to start the education campaign. Parliament rose immediately after passing the 1999 Budget and did not sit again until July 1999. In its haste it failed to pass the Consumer Affairs legislation designed to prevent excessive price increases being blamed on the introduction of the tax.

This meant that there has been no accurate monitoring of the introduction of the tax and there has been less pressure on suppliers than there would have been if there was a well-educated public aware of its rights and the effects of the tax. As well, the effects of the rapid devaluation of the kina were beginning to bite hard and prices were being adjusted upwards. Some government-owned statutory bodies took advantage of the introduction of the tax to obtain price rises they previously could not obtain from the Price Controller. The government also introduced some tariff increases on inputs for the transport, manufacturing and agricultural industries. As well, the mini-Budget of 10 August raised a number of taxes which further obscured the true effects of the VAT. There is almost universal agreement that prices have risen over the period but no analysis to isolate the causes has been undertaken.

In introducing the tax the government had to make a special agreement with the provinces to ensure that revenues would be distributed on a pro rata basis and not added to Consolidated Revenue. Provinces were fearful that they would not receive their full entitlements. As the VAT superseded provincial powers to raise sales taxes, these fears were legitimate. The fear was compounded by the past failure of the national government to pay their full entitlements under the Organic Law.

GDP growth

The major reason for the sudden economic downturn in 1997 was the drought associated with the El Niño effect. This had a two-pronged effect. Exports of primary produce and minerals almost came to a halt due to lack of water for processing and transportation.[6] Imports of rice almost doubled during the period as relief supplies were provided to nearly 1 million people.

Other factors contributing to the poor performance in 1998 were the decline in production levels and price of oil and the reduction in the price of other minerals, and a halving of log exports as a result of the East Asian crisis. The first half of 1999 did not see any significant recovery despite attempts by various government officials to talk the economy up.[7]

Oil production is hovering between 90,000 and 100,000 barrels. Prices were subdued in the first quarter, reaching as low as US$11 per barrel, but rose in April and reached over US$18 per barrel in early May, and over US$22 per barrel in October 1999. Experts have warned that this price increase has been too fast and will probably result in a significant correction. Gold prices have fluctuated substantially during 1999, reaching high levels in early May before falling away again after the Bank of England announced that it was disposing of some of its stocks. Gold prices were as low as US$256 per ounce (K121), below the price used in the original 1999 Budget, before rebounding to reach a high of K325 in early October. Copper prices recently improved, rising to US$82 per pound before falling away to around US$0.76 per pound, significantly below the predicted price for the 1999 Budget.

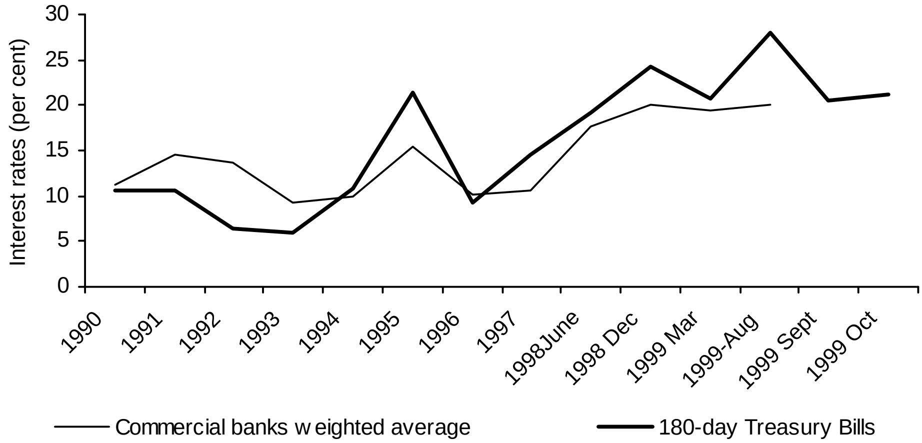
Combined with a reasonably good agricultural season for both crop output and prices, the mineral and petroleum rebound has meant that predictions for GDP growth in 1999 have been raised to 2 per cent for non-mineral GDP and 3.5 per cent for GDP.

Interest rates

In 1994 the government pushed up interest rates and reduced the money supply by lifting the liquid asset reserve ratio to over 30 per cent. In 1998 the average 180-day Treasury Bill rate peaked at 23.65 per cent in early May, and fluctuated between 19 and 22 per cent for most of the year. In 1999 rates have fluctuated between 19 and 26 per cent with the rate in August 1999 at over 28 per cent. On 6 September the rate fell by 5 per cent and this may have signalled the end of the very high interest rates.

Interestingly, some commercial banks have been able to hold their short-term deposit rates higher than their average lending rates. This has reflected the demand for short-term liquidity and the high Treasury Bill rate which has allowed banks

Figure 2 **Interest rates, 1989–99** (per cent)



Source: Bank of Papua New Guinea, 1999. *Quarterly Economic Bulletin, June 1999,* Port Moresby; Bank of Papua New Guinea, 1999. *Statistics Updates, September 1999;* Bank of Papua New Guinea, Treasury Bill rates.

to make a good margin between those rates and their lending rates.

Exchange rates

The exchange rate fell from US$0.69 to the kina and A$0.96 to the kina in September 1997 to as low as K1=US$0.34 and K1=A$0.52 in mid September 1999 (*Post Courier*, 17 September 1999).[8] After the visit of the Australian Prime Minister, Mr Howard, and the announcement of the Australian financial package, rates were K1=US$0.36 and A$0.57 in October 1999 (Figure 3). The Australian government brought forward A$30 million in budget support in July but this did not appear to have any effect on the market.

Reserves fell to US$74 million (K191 million) at the end of June 1999, equivalent to 0.9 months of import cover or 1.2 months of non-mineral cover, which did not give the Bank of Papua New Guinea any room to move in the currency market. Reserves were significantly eroded in the dying days of the Skate Government as the Bank of Papua New Guinea tried to prop up the exchange rate.[9]

There are many reasons why the kina has depreciated. The first quarter of the year is traditionally poor for foreign exchange earnings because primary industry exports are generally at their lowest due to seasonal influences. Coffee and copra exports do not peak before April and often six to eight weeks after that. At the same time mineral and petroleum prices fell drastically in the first few months of the year and gold production was not as high as expected.

Import levels are down significantly, and import duty revenue was K8.7 million in September and K225 million for the year to date, as compared with the budgeted figure of K233 million. Importers claim that levels are down by more than 30 per cent and some businesses are facing severe financial difficulties.

As would be expected in a situation where reserves have fallen substantially and the exchange rate is depreciating, invisible transfers at K436 million were double for the March quarter 1999 over the same quarters in 1998 (K254 million) and 1997 (K221 million). Strong anecdotal evidence suggests that much of the capital flight is from Papua New Guineans who would have received a much better return on their capital if they had invested in Treasury Bills when the real rate of return was around 10–15 per cent during the March and June quarters. This serves to illustrate the level of uncertainty and the lack of faith that existed in the political and economic system.

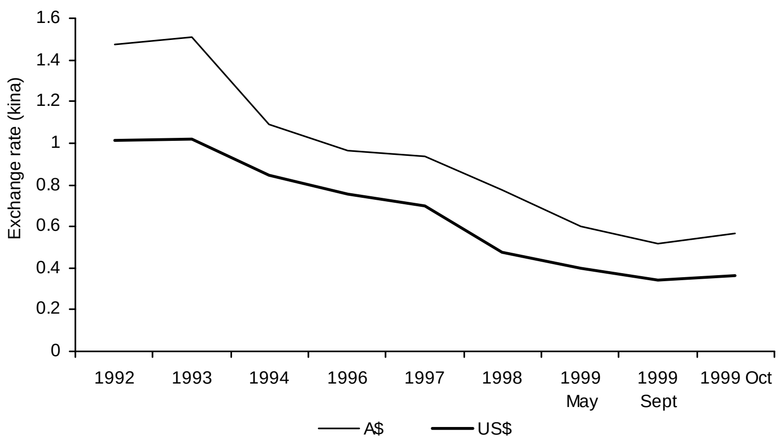
The government has now decided to re-engage with the World Bank and the IMF but this will not happen quickly. However, the short-term response has been good and the exchange rate has firmed. The longer term effect will depend on successful loan negotiations and careful management of the economy.

Employment

Official employment data is rare. Table 1 shows the results of one of two surveys carried out annually by the Bank of Papua New Guinea. Usually both surveys indicate the same trend although they may differ from time to time. Recently, the validity of these surveys has been queried. With the obvious growth of Port Moresby and Lae, as well as other urban centres, and the growth of business, particularly supermarkets and trade stores, it is difficult to believe that total employment shrunk over the period 1989–98.

The index shows small increases in retailing and manufacturing, with more significant increases in mining, finance and business sectors. These are small employers compared with agriculture which still employs about 85–90 per cent of Papua New Guineans. The Employers' Federation index (1998) shows a decrease in employment in the last half of 1998 of 4.7 per cent. Gains were recorded in the

Figure 3 **Exchange rates, 1992–99** (kina)



Source: Bank of Papua New Guinea, 1999. *Quarterly Economic Bulletin,* June, Port Moresby; *PNG Post Courier.*

construction, trading, wholesale and retail, and media and communication sectors. Agriculture, mining and petroleum, manufacturing and processing, banking and finance, transport, hotels and restaurants and the 'other' categories recorded drops in employment.

The Bank of Papua New Guinea reports an increase in formal sector employment of 1 per cent in the March 1999 quarter with gains in retail, wholesale agriculture, mining and finance service industries offsetting losses in the manufacturing, transport and building and construction industries.

Wages

The latest Employer's Federation survey showed that 96 per cent of member companies surveyed had paid wage increases over the last 18 months despite the fact that there was no minimum wage increase (Table 2). The minimum wage is K49.36 per fortnight.

There is some confusion about future wage levels. The proper procedure is for the National Tripartite Consultative Council, made up of unions, employers and government to agree that Minimum Wages Board (MWB) be set up and to agree on its terms of reference. Unions and employers have agreed that they do not want a costly Minimum Wages Board hearing and that they should reach an agreement.

Nevertheless, the government allowed the Board to begin its hearings. The Employers' Federation has successfully challenged the appointment of Mr Max Kep as Chairman of the Board and the hearings have been delayed as a result. It is timely that the government re-examine the membership and terms of reference of the Board. The two options are to

- abolish the Board and allow the National Tripartite Council to reach consensus through bargaining

Table 1 **Papua New Guinea: employment index, 1989–99** (1989 = 100)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Mar-99
Retail	101.2	87.8	86.2	85.4	83.9	88.4	92.6	94.8	103.9	109.6	114.8
Wholesale	95.7	87.3	81.4	86.2	83.9	90.6	82.3	82.1	82.1	82.4	82.5
Manufacturing	98.5	94.8	95.2	101.9	103.7	120.1	110.2	114.7	119.2	114.8	126.1
Building and construction	106.2	106.8	81.1	76.6	73.6	77.8	69.6	89.4	85.8	72.7	64.1
Transport	105.6	111.5	104.4	94.1	90.7	95.2	89.6	96.5	99.0	97.7	93.5
Agriculture / Forestry / Fisheries	105.6	111.5	104.4	94.1	90.7	95.2	89.6	96.5	99.0	70.1	76.6
Financial and business	103.5	109.2	103.3	104.6	104.3	102.3	111.0	116.1	127.3	134.3	133.1
Mining	101.0	100.7	99.8	107.3	106.4	104.9	112.2	116.2	116.7	137.8	137.6
Total	99.3	94.6	91.1	94	91.4	98.1	93.5	100.5	100.3	93.6	97.6

Source: Bank of Papua New Guinea, 1999. *Quarterly Economic Bulletin*, June, Port Moresby.

Table 2 **Employer's Federation survey of wage increases, 1998–99**

Wage increase (per cent)	Firms paying the increases (per cent)
0–5	39
5–10	43
10+	8

Note: 6 firms did not respond to the survey. 96 per cent of respondents reported wage increases.
Source: Employers' Federation of Papua New Guinea, 1998. *Employment Survey No. 22*, Port Moresby.

- give the Board more detailed terms of reference, for example, to look at fundamental issues such as the need for a minimum wage and what Papua New Guinea wants it to achieve. This would involve some expert members and expert advisors and researchers.

Tourism

Tourism is one of Papua New Guinea's biggest potential export earners. The industry has grown from 5,000 visitors in 1993 to about 22,500 in 1998. Given the rich natural diversity and beauty of Papua New Guinea, it should be one of the foremost tourist destinations in the region.

The recent devaluation of the kina, on top of the earlier ones, should make it more competitive as a tourist destination with countries such as Fiji which receives around 350,000 tourists a year earning around K250-400 million per year (Duncan and Lawson 1999). High air fares, accommodation costs and continuing bad press about law and order all inhibit growth in the industry despite the proliferation of eco-tourism destinations and the efforts of the Tourism Promotion Authority. It is estimated that the industry will grow by about 5 per cent in 1999 (Tourism Promotion Authority, personal communication, May 1999). Growth will not be helped by a recent class action brought by an Australian law firm which has led to the cancellation of planned monthly P&O cruise liner visits to Port Moresby.

Government performance

Receipts for the first half of the year to June 1999 amounted to K469 million which was 42 per cent of the annual (original) 1999 Budget. Direct taxes were up 5 per cent from an estimated K320 million to K336 million. The main revenue areas to increase were personal income tax and company tax. Personal income tax collection rose by K15 million for the quarter; this was primarily due to income tax compliance audits carried out in a town outside Port Moresby. This is not an indicator that the economy has improved; rather it shows that the IRC is doing its job better and getting more tax from the existing economy.

Company tax receipts increased by K15 million in the same period, an increase of 14 per cent over the budget. The main reason is that provisional tax is traditionally paid in the first quarter. Therefore, it is not expected that the trend will continue throughout the year.

Indirect taxes (excluding log export taxes) were K454 million for the period to end September against a budget of K457 for the period. Log export tax collections at K49.5 million are more than double the budgeted figure.

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Government expenditure has not been kept under control in the first half of the year and the new government has set itself the task of reducing the deficit from 4 per cent of GDP to 1.7 per cent in the period from August to the end of the year. This means that payments (as opposed to commitments) will only be made when cash is available and according to pre-set priorities. It also means that the cash budget will have to be kept under strict control.

Infrastructure maintenance performance is still very poor despite a greater government effort and increased funding. At the end of July 1999, K47 million had been allocated throughout the country, K33 million had been committed and K31 million had been spent. Of these funds 37 per cent was allocated to the National Capital District and a further K16 per cent was allocated to Central Province. Expenditure performance for maintenance on the Highlands Highway has shown the same trend with K5.3 million allocated and only K3 million committed at the end of April. Some provinces have not yet advised National Works headquarters of their expenditures, so it could be significantly higher.

Prime Minister Morauta revealed as part of his mini-Budget in August 1999 that the public service retrenchment exercise had failed. Instead of reducing the public service by 7,000 it had actually grown by about 3,000. Many of these were teachers taken on to teach *tok ples* in elementary schools. The government's inability to reduce numbers resulted in a massive blow-out in wage expenditure.

Prospects

The short-term prospects for the exchange rate and therefore for inflation are good. It seems likely that the commercial loan will be subscribed and there are good chances of obtaining World Bank and IMF funding. Assistance will be conditional on implementing the reforms that those organisations insist on.

The public sector reforms did not work. They were ill-conceived and badly planned. Attention has to be given to the staffing needs of provincial and local-level governments which are severely hampered by a lack of funds and adequately trained and experienced staff.

Investment is virtually non-existent. Uncertainty and high interest rates are severely inhibiting investment. The Investment Promotion Authority has reported a drastic fall in investment enquiries—72 per cent of enquiries received were for retail and real estate investments which will not generate sustainable growth. The Chamber of Mines and Petroleum reports a similar decline in investment in the mineral and petroleum sector.

There is an urgent need for Papua New Guinea to re-examine its investment policies and to take steps to remove the disincentives to both domestic and overseas investment in all sectors but especially in the resource and agricultural sectors. Two major oil palm projects have been put on hold, as was the public share float of New Britain Palm Oil Development Ltd. One company has decided that there are better investment opportunities elsewhere and New Britain Palm Oil decided that the climate leading up to the change in government was too uncertain to continue with its float.

No meaningful increase in employment will take place until the main constraints to agricultural production are removed. The major constraints are infrastructure and law and order. Progress in the maintenance of infrastructure is painfully slow as it has been in earlier years. Radical experiments, such as expansion of tax credits and outsourcing the identification, planning and performance of maintenance will be necessary to break the log jam.

The long-term potential is great, based on the agricultural and mineral wealth as well as Papua New Guinea's tourist potential. The degree to which that potential will be realised is dependent on the ability of the government to establish the necessary preconditions.

Notes

1. Exchange rate $US0.3425=K1, *PNG National*, 13 October 1995
2. *Post Courier* business page on 14 October reported that the exchange rate had hit the highest level since November 1998.
3. Provinces did not receive their full entitlements under the Organic Law on Provincial Government for the last two years.
4. A facility introduced in 1998 whereby the commercial banks had to hold 10 per cent of their deposits in an interest free deposit with the Bank of Papua New Guinea.
5. This was raised to 20 per cent in June.
6. Transport to and from the Ok Tedi mine is via the Fly River. When river levels are too low production is halted. The overall mineral production effect was relieved to some extent by better-than-expected revenues from the Lihir mine, which came on stream earlier than expected, due to the prolonged dry weather.
7. The Chief Economic Advisor to the Skate Government, Dr Hamidian–Rad was especially optimistic. This may have been linked to attempts to raise overseas funds (*Treasury Weekly* No. 4, 25 January 1999 and No. 14, 5 April 1999).
8. It is important to note that the official rate tends to be about 2 cents higher than the commercial rate and the commercial rate on the same day was K1=US$0.32 and K1=A$0.49.
9. The Skate Government had promised that economic measures introduced during the previous year would lower interest rates and rescue the kina. There was significant political credibility resting on these outcomes and there have been allegations of political interference with the Bank of Papua New Guinea and tampering with the exchange rate during that time.

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