

BUSINESS COUNCIL OF PAPUA NEW GUINEA

2005 Annual General Meeting

June 22, 2005 @ Crowne Plaza, Port Moresby

PRESIDENT'S REPORT

I welcome all of you to the 2005 Annual General Meeting. Thank you for your support by your attendance this morning.

As reported in the President's Report last year, the country's economic outlook has improved further in the last 12 months. This has been a result of political stability and improved fiscal management.

The year witnessed promising outlook with these economic indicators:-

- (a) Headline inflation was previously 8.2% and is -1.2%.
- (b) Foreign Reserve was US\$547m and is now US\$620.00m (May 2005) sufficient for 5.3 months of total and 6.7 months of non-mineral import cover.
- (c) Kina Facility Rate which helps guide interest rates by banking houses was 14% and is now reduced to 7%.
- (d) The exchange rate stabilized during the year to a predictable .33 US cents to K1.
- (e) Some other positive indicators include:
 - (i) Central Bank reported that preliminary estimates of the fiscal operations of the National Government to March 2005 showed an overall surplus of K127.1m compared to the surplus of K13.8m in the corresponding period of 2004. These said the Central Bank represents 0.9% of GDP. The Bank also said that the higher surplus was mainly due to higher revenue while there was a marginal decline in expenditure.

- (ii) Debt servicing following the budget surplus in the first three (3) months of 2005, the Government has made nett overseas and domestic loans repayments of K100.8m and K26.3m respectively.
- (iii) According to the Central Bank's employment index, the level of employment in the formal private sector, excluding Mining and Petroleum and the North Solomons Province grew marginally by 0.3% over the year to December 2004. Reported increase in employment were in wholesale (12.6%), Manufacturing (2.7%), Transportation (7.7%) and Finance (3.2%). Not so good were reported decline in employment in Agriculture, Fisheries and Forestry of 2.8%. In Building and Construction the decline in employment was 11%.
- (iv) Domestic credit extended by Commercial Banks to the private sector, official entities and non monetary financial institutions increased by K108.2m to K1559.2m in the March quarter of 2005 compared to a decline of K15.0m during the corresponding quarter of 2004. Lending to private sector and official entities increased by K84.4m and K32.1m respectively. This increase in lending to private sector were mainly in the Building and Construction, Agriculture and Forestry Sectors and private households, while lending to official entities was mainly to non-financial public enterprises.

This lending increase signals economic activity which is a good sign, and if it continues.

Whilst the promising and bright future outlook is premised on the increases in international prices for most agricultural commodities (with exception of Cocoa and Palm Oil) Oil & Petroleum, it is to be noted that the Government's fiscal discipline and political stability has had an important role in the gains that has been made in the macro-economic result of the economy. It is therefore important that this fiscal discipline is vigorously maintained by the Government particularly as preparation for the next Parliament election gets closer. The sound management of the monetary policy is also to be highlighted as a tool with which the fiscal regime is inter-related.

The Council has also felt, through its members renewed enthusiasm for investment that the nation's economic outlook is promising. It is suggested that the ECP Programme which unfortunately has had to terminate as a result of a recent Court Decision, provided support and excitement to investors, new and existing, to view PNG as an investor location. The Council in 2003 were involved in the discussions which resulted in the supported ECP package. It continues to encourage both the Australian and the Papua New Guinea Governments to review closely the terms of that agreement with a view to reinstating it as soon as it is practicable. Perhaps, an opportunity exists for wide consultation on the terms to be agreed, as many in the community would like to see that the "new look" ECP Package is that which is workable, relevant and does involve participation by the public. There is not doubt whatsoever, that the ECP is need to boast our country's effort to deal with impediments to business.

Council's highlight and achievement for 2004

1. The Council continued to be active in pursuing matters of interest of the members throughout the year in particular it's continued dialog with the government. The Council continued to be consulted on many and various policy matters. It continued its important role as a member in the National Working Group chaired by the Chief Secretary to Government, to remove impediments to business. The council also in its endeavor to be representative of the business community in Papua New Guinea worked hard to link itself has cooperated closely with other industry associations. Some of the activities that the Council has been involved includes:
 - (a) its membership to the CIMC where its sees its role as important in directing government opinions to facilitate policy formulation where such policies do and properly reflect wider community support and positions and needs.
 - (b) The Council's continues close cooperation and association with its counterpart, the PNG Australia Business Council. In May this year, in association with the Australia PNG Business Council, coordinated the business forum in Cairns held between the 1st and 3rd May this year. Following from a similar forum in 2004 also held in Cairns, the 21st Business Forum was attended well by the Papua New Guinean senior Ministers. Apart from the opportunity for businessmen to

meet each other, papers delivered at this forum were of much importance to Papua New Guinea, and while some aspects of the economy were well reported to be on its way to recovery and a brighter future, there is a lot more to be done in certain sectors of the economy including the development of the tourism and many infrastructure issues such as improvement and efficiency of telecommunication in the country.

- (c) The Council was also involved in the ministerial forum held in Lae between the Papua New Guinea and Australian Government in December 2004. The President of the Australia PNG Business Council and I as your President issued a joint statement at that Ministerial Forum in Lae. A copy of that communiqué is annexed to this Report.

Membership

Our membership has remained steady but there is need for publicity of the work that the Council is doing and for it to work towards increasing its membership. We welcome three (3) new members this year. They are:

- WR Carpenters Group
- Tourism Promotion Authority
- W H Industries

These brings a total of financial members to **79**.

Secretariat

The Council appointed last month, Maryanne McDonald as the Executive Officer to the Council. Please let me take this opportunity to introduce to you Maryanne McDonald. Welcome Maryanne.

Maryanne is now in the process of setting up a proper secretariat office which will be situated within an office with the Port Moresby Stock Exchange. We intend as part of Maryanne's setting up the secretariat, to begin work on a programme to set up a website which will enable the members to access information not only about the work of the Business Council, but which will link our members to other like business organizations.

The Future

Looking ahead therefore, we at the Council are, with the appointment of Maryanne McDonald as Executive Officer, well placed to provide better information to our membership as well as represent its interests both at local and international levels more rigorously.

We are keen and will pursue links with like business organizations in the Pacific, and Asia regions, as well as maintain all focus on our dialog with our government towards improving business investor environment in PNG.

Thank you again for your support throughout the year and my special acknowledgement for the support and assistance I have as your President received from the Executive Committee in the last 12 months. We wish everyone the very best in your businesses this year on.