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May 31, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Papua New Guinea - Staff Report for the
1983 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with Papua New Guinea, which will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mrs. Meesook (ext. 76014) or Mr. Boorman (ext. 73342).

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INTERNATIONAL MONETARY FUND

PAPUA NEW GUINEA

Staff Report for the 1983 Article IV Consultation

Prepared by the Staff Representatives for the 1983 Consultation with Papua New Guinea

Approved by P. R. Narvekar and Donald K. Palmer

May 31, 1983

I. Introduction

Discussions for the 1983 Article IV consultation were held in Port Moresby during April 5-15, 1983. The staff team comprised Messrs. J. Boorman, X. Vongsathorn, M. Z. Khan, Mrs. K. Meesook (all of ASD), and Mrs. D. Ellyn (secretary, ASD). Discussions were held with the Minister of Finance, the Governor of the Bank of Papua New Guinea and officials of government departments and the Bank of Papua New Guinea.

Papua New Guinea has accepted the obligations of Article VIII, Sections 2, 3 and 4 and maintains an exchange system free of restrictions on payments and transfers for current international transactions.

II. Background

Conclusions from an analysis of economic developments in Papua New Guinea need to be drawn with more than the usual degree of caution. Many of the precepts about economic behavior presume a reasonably well integrated economic and financial environment--one in which resources are relatively mobile and markets relatively unified. In many ways, these conditions are present only to a limited extent in Papua New Guinea. It is a topologically rugged country--geographically fragmented by mountains and water, and lacking in transport infrastructure--and culturally segmented by customs and by language (over 700 languages are spoken by its 3 million inhabitants). Its tribal history makes land transactions difficult, and land redistribution schemes have in recent years created further uncertainties about the security of land ownership. Moreover, the relatively low level of education of the population quickly imposes constraints on the use of labor.

As an open economy producing almost solely primary products, Papua New Guinea suffers magnified reflections of cycles in the world economy. Institutions have been established and policies adopted with the aim of insulating the domestic economy to some degree from these cycles. These have included the use of stabilization funds to smooth prices and/or incomes received by producers of important primary products (coffee, copra, and cocoa), mechanisms to adjust budgetary flows from the mining sector to the absorptive capacity of the economy, and management of the exchange rate in such a manner as to minimize imported inflation.

Notwithstanding these efforts, the major cycles in commodity prices have influenced developments since independence in 1975 in important ways. The commodity price boom of the late 1970s, together with the coming into full operation of the Bougainville copper mine, strengthened the external position, increased growth and employment, and markedly improved the budgetary situation. By 1979, exports were almost 80 per cent higher than their level in 1976, and, despite rapidly growing imports, the current account of the balance of payments was in surplus. With the improvement in the external sector and the associated pickup in the growth of GDP, budget revenue, especially from Bougainville Copper Limited (BCL), increased rapidly--even making possible an accumulation of deposits from this source in the Mineral Resources Stabilization Fund. The strength of the external sector, together with an acceleration of domestic credit and increased government expenditures funded by revenue from BCL, led to a pickup in the growth of domestic liquidity. This, together with the increase in import prices, ultimately led to an increase in domestic inflation. By 1980, inflation in consumer prices reached 12 per cent, compared with an average of 6 per cent per annum during 1976-78 (Table 1).

At about the time that these pressures began to emerge in the domestic economy, the external position began to deteriorate as oil prices increased and, with the onset of the world recession, commodity export prices declined. Following the fairly sharp improvement in export prices in 1979, the terms of trade moved against Papua New Guinea by 39 per cent over the course of 1980 and 1981 (Table 2). As early as 1980, the current account moved into large deficit (11 per cent of GDP) and the Government began to increase substantially its overseas borrowing on commercial terms.

In 1981, the current account deficit widened to over 20 per cent of GDP as exports declined while petroleum imports continued to increase sharply and capital goods imports associated with a few large investment projects expanded. At the same time, the fiscal deficit, reflecting the momentum of expenditure increases set in motion during the commodity price boom as well as the downturn in revenue from BCL, rose to 6 per cent of GDP (Table 3). The impact of the export price decline was exacerbated by a reassessment in late 1980 of the ore content of the Bougainville mine which massively reduced prospects for exports and for government revenue from that operation. Moreover, an agreement entered into with Australia before the severity of the world recession and the situation at BCL were

Table 1. Papua New Guinea: Selected Domestic Indicators, 1978-83

	1978	1979	1980	1981	1982 (Prel.)	1983 (Proj.)
National income						
(per cent change)						
GDP (in real terms)	6.2	1.8	-2.5	1.4	-0.4	5.6
GDP adjusted 1/	0.7	9.0	-7.6	-9.3	-1.7	6.1
Prices						
GDP deflator	0.3	13.2	7.7	-3.0	4.3	11.1
Consumer price index 2/	6.0	7.9	11.7	5.6	6.9	10.0
Savings/investment						
(per cent of GDP)						
Total investment	21.0	23.5	25.0	27.3	29.0	35.3
Of which:						
Gross fixed capital formation	19.0	20.0	22.8	26.8	31.5	...
Of which:						
Government	6.2	6.7	8.8	9.3	8.2	7.7
Mining sector	2.1	1.8	1.9	3.7	15.0	17.8
Domestic savings	25.9	28.6	19.7	12.3	11.6	...
Foreign savings	-4.9	-5.1	5.3	15.0	17.4	...
Employment ('000s)						
Total formal sector	198.6 3/	211.4 4/	226.6 4/	212.3 4/	196.6 4/	...
(Per cent change)	(8.2)	(...)	(7.2)	(-6.3)	(-7.4)	...
Minimum wages (kina per week) 5/						
Rural primary industry	10.7	11.5	12.4	13.7	14.5	15.5
Urban	29.7	30.8	33.2	36.8	38.8	41.5

Sources: Data provided by the Papua New Guinea authorities and staff estimates.

1/ Adjusted for changes in the terms of trade. See RED Appendix Table I (SM/83/.., 6/../83).
2/ Per cent change over the year to the fourth quarter.
3/ As of end-June.
4/ As of end-December.
5/ As of March.

Table 2. Papua New Guinea: Selected External Sector Indicators, 1978-83

	1978	1979	1980	1981	1982 (Prel.)	1983 (Proj.)
Terms of trade	-5.0	15.4	-15.1	-20.5	-4.5	2.2
Exchange rate						
$/Kina 1/	1.412	1.405	1.492	1.487	1.356	1.206 2/
Indices of effective exchange rate 3/ (per cent change)						
Nominal	-1.8	-0.8	5.8	2.8	0.6	-9.6 4/
Real	1.1	-4.7	3.3	5.3	1.8	...
			(In millions of SDRs)			
Balance of payments						
Exports	600.6	783.1	757.5	713.8	691.5	774.6
Imports	-534.8	-606.9	-783.9	-930.8	-922.4	-1,018.0
(Of which: Ok Tedi related)	(--)	(--)	(--)	(-8.8)	(-116.7)	(-204.7)
Services (net)	-191.2	-239.3	-311.7	-357.0	-335.3	-398.3
(Of which: Ok Tedi related	(--)	(--)	(--)	(-7.6)	(-47.9)	(-86.3)
Private transfers (net)	-70.3	-74.0	-80.2	-107.2	-111.8	-116.2
Official transfers (net)	203.2	195.8	205.1	238.4	237.0	237.9
Current account	7.5	58.7	-213.2	-442.8	-441.0	-520.0
(excluding Ok Tedi)	(7.5)	(58.7)	(-213.2)	(-426.4)	(-276.4)	(-229.0)
Current account as per cent of GDP	0.4	3.3	-10.9	-20.9	-20.6	-22.7
(excluding Ok Tedi)	(0.4)	(3.3)	(-10.9)	(-20.1)	(-12.9)	(-10.0)
Capital account						
Net official capital	-6.2	29.4	50.4	98.4	92.1	121.7
Net private capital	-22.7	12.0	34.4	238.4	342.7	431.5
(Ok Tedi related)	(--)	(--)	(--)	(32.8)	(250.5)	(414.9)
Other (including errors and omissions)	-14.7	-16.4	67.6	68.1	-30.7	...
Overall balance	-36.1	83.7	-60.8	-37.9	-36.9	33.2
International reserves (end of period)						
SDR millions	331.5	410.2	365.8	366.2	328.8	328.8
In months of imports	7.4	8.1	5.6	4.7	4.3	3.9

Sources: Data provided by the Papua New Guinea authorities and staff estimates.
1/ Period average.
2/ Assumes end-March 1983 exchange rate prevails for the remainder of 1983.
3/ Trade-weighted, period average indices; positive change indicates an appreciation of the kina.
4/ Change in index March 1982 to March 1983.

Table 3. Papua New Guinea: Government Finance and Monetary Developments, 1979-83

(In millions of kina)

	1979	1980	1981	1982 Budget	1982 Actual	1983 Budget	1983 Revised estimate
I. Central Government fiscal operations							
Total revenue	460.5	574.3	558.0	600.3	559.7	604.1	615.1
(of which: foreign grants)	(176.2)	(175.5)	(184.0)	(198.6)	(186.7)	(213.3)	(213.3) 1/
Total expenditure	504.4	597.8	658.8	714.5	667.1	736.2	736.2
(of which: capital spending)	(82.6)	(119.6)	(122.0)	(162.4)	(127.4)	(141.5)	(141.5)
Overall balance	-43.9	-23.5	-100.8	-114.2	-107.4	-132.1	-121.1
(as per cent of GDP)	(-2.7)	(-1.3)	(-6.0)	(-6.5)	(-6.2)	(-6.4)	(-5.9)
Financing							
External	26.9	47.4	83.7	99.8	75.7	107.1	107.1
International agencies	(13.6)	(16.5)	(21.3)	(36.6)	(19.8)	(46.1)	(46.1)
Other	(13.3)	(30.9)	(62.4)	(63.2)	(55.9)	(61.0)	(61.0)
Domestic	17.0	-23.9	17.1	14.4	31.7	25.0	14.0
(of which banking system)	(21.7)	(-20.0)	(28.1)	(25.0)	(30.6)	(20.9)	(9.9)

	1979	1980	1981	1982
II. Monetary developments				
Net foreign assets	353.9	281.8	221.8	205.0
(of which Bank of PNG)	(351.9)	(264.1)	(228.6)	(210.0)
Domestic credit	264.0	312.0	386.0	444.3
(of which to Government (net)) 2/	(35.0)	(8.1)	(43.4)	(71.1)
Other items (net)	-46.2	-40.7	-53.1	-81.5
Money (M3)	571.7	553.1	554.7	567.8
Money (M3*) 3/	362.9	382.7	412.8	434.5
(per cent change)	(17.9)	(5.5)	(7.9)	(5.3)
Velocity of M3* 4/	3.9	3.8	3.4	3.3

	1979	1980	1981	1982 June	1982 December
III. Interest rates (end of period, in per cent per annum)					
Bank of Papua New Guinea lending rate	n.a.	11.00	14.00	14.00	12.00
Commercial bank term deposit (12 months)	6.10-7.50	9.50	16.00-16.50	15.50	12.00
Commercial bank lending rate (overdraft)	9.75-11.50	11.50-13.50	14.75-18.00	14.50-18.00	12.50-16.00

Source: Data provided by the Papua New Guinea authorities.

1/ The figure for foreign grant aid assumes that discussions underway between the Government of Australia and Papua New Guinea will result in an agreement to keep the aid level in 1983 at the same level in real terms as in 1982.

2/ Includes promissory notes issued by the Government to reimburse foreign exchange losses of the Bank of Papua New Guinea on account of exchange rate adjustments and contra-entry for Treasury/IMF account.

3/ M3* is defined as money (M3) excluding deposits of Bougainville Copper Limited and Commodity Stabilization Funds.

4/ Defined as market component of GDP at current prices divided by money stock at end year.

fully perceived, programmed a reduction in grant aid at a rate of 5 per cent per year in real terms until 1985. These aid flows had accounted for over one third of government revenue and about the same proportion of total imports in 1979.

The impact of the weak external situation on domestic activity was quickly felt, and growth again faltered as it had immediately after independence in 1975, with GDP declining by about 1 per cent during 1980 and 1981. Under these circumstances, and reflecting the imposition of restrictive credit policies, the growth of liquidity declined sharply and inflation subsided fairly rapidly to below 6 per cent in 1981. External commercial borrowing was increased over the period to cover much of the budgetary deficit and to provide support to international reserves which had fallen from the equivalent of over 8 months' imports in 1979 to 4.7 months' imports by the end of 1981.

During the late 1970s, the exchange rate of the kina was periodically adjusted to reflect the relatively better price performance of Papua New Guinea. In early 1980, the real effective exchange rate of the kina was at about the same level as in 1977-78. With the increase in domestic inflation in 1980, however, and with continued moderate appreciation of the kina in nominal effective terms, competitiveness began to weaken. Between mid-1980 and late 1981, the value of the kina increased in real effective terms by about 9 per cent (Chart 1).

III. The Recent Situation

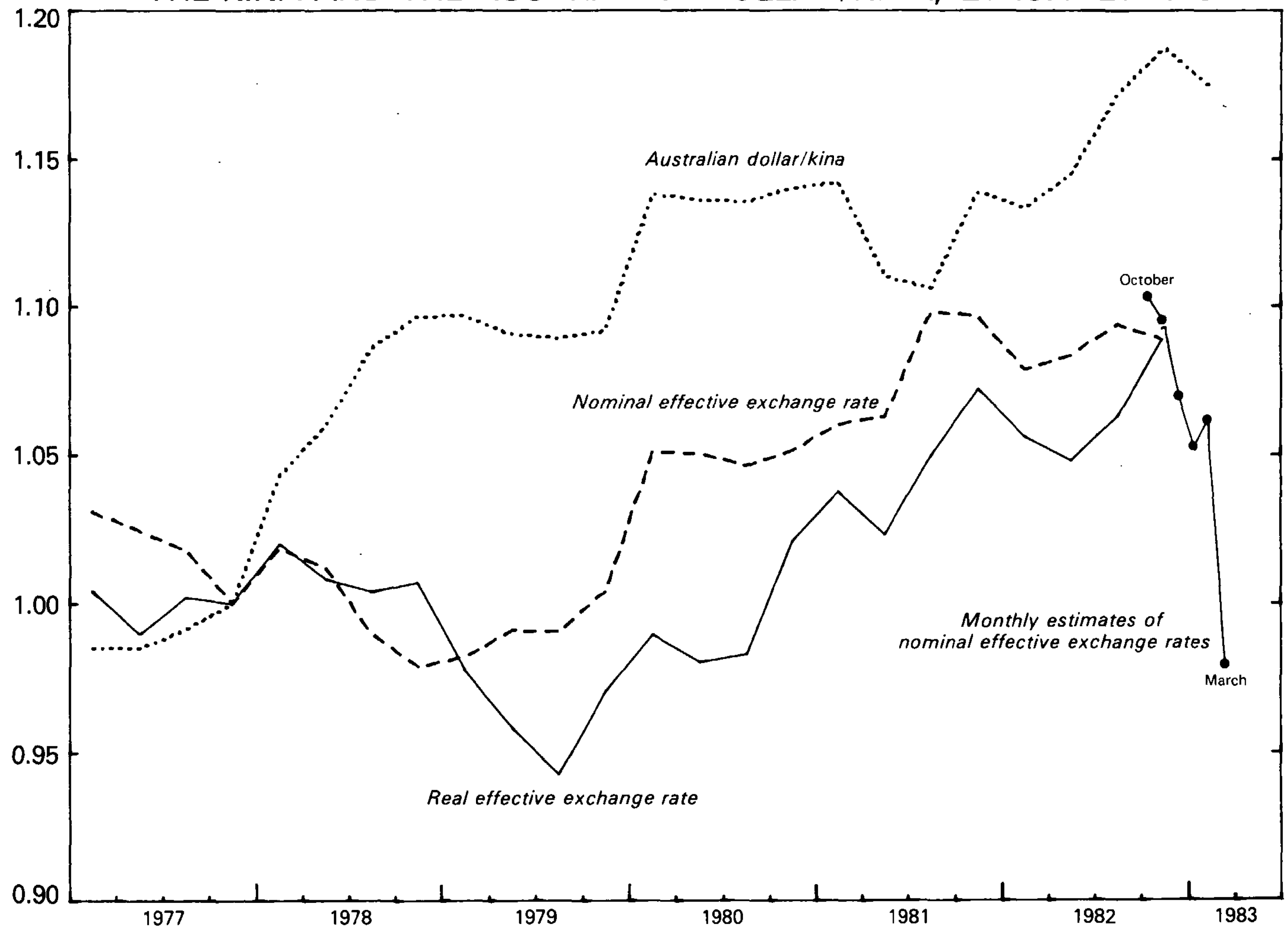
The deteriorating economic situation stabilized somewhat in 1982. The current account deficit (as a per cent of GDP) remained at about the same level as in 1981, even after accommodating substantially increased imports for a new large gold and copper mining project at Ok Tedi. In fact, the underlying balance of payments position improved as the deterioration in the external terms of trade and the decline in export earnings slowed down, and imports, other than those associated with Ok Tedi, fell sharply. However, the cost of this stabilization was high. Government expenditures--through adjustments made during the course of 1982 to offset revenue shortfalls, particularly from BCL--remained at near the 1981 level, thereby declining in real terms. Together with the impact of the world recession on the private economy and relatively tight domestic monetary conditions--both of which reduced private investment--this restraint in the public sector contributed to a further decline in GDP of about 0.4 per cent. Notwithstanding the increased investment associated with the Ok Tedi project, declining domestic activity adversely affected employment in the formal sector, which was estimated to have fallen by about 7 per cent following a decline of 6 per cent in 1981 (Table 1). 1/ Under these circumstances, domestic inflation remained moderate with consumer prices increasing by about 6 per cent.

1/ Employment in the formal sector is estimated to account for only about 15 per cent of total employment. Activity and employment in the subsistence sector are thought to be far less volatile than in the formal sector.

CHART 1

PAPUA NEW GUINEA

INDICES OF REAL AND NOMINAL EFFECTIVE EXCHANGE RATES[1] OF THE KINA AND THE AUSTRALIAN DOLLAR/KINA, Q1 1977-Q1 1983



Source: Data provided by the Papua New Guinea authorities and staff estimates.

[1]On basis of trade weights estimated for period 1980-82.

Despite the stabilization of the external situation in 1982, overseas commercial borrowing for budgetary and balance of payments support remained high. External public debt outstanding increased by 64 per cent during 1980-82 and, with a larger share being taken down on commercial terms, the debt service ratio on public debt more than doubled over this period to about 10 per cent (Table 4). Private debt increased even more rapidly as construction began at Ok Tedi, and Bougainville Copper Ltd. arranged revolving credits for working capital and increased its investment to help offset the deterioration in ore content. By end-1982, outstanding private debt was approaching the level of public debt, and the total debt service ratio reached 20 per cent.

During the course of 1982 and early 1983, the kina remained pegged to a basket of currencies, generally appreciating against the Australian dollar --the currency of the most important trading partner--but changing little over the entire period in either nominal or real effective terms. On March 8, 1983, the kina was depreciated by 5.5 per cent against the official basket of currencies as the authorities kept the exchange rate vis-a-vis the Australian dollar fixed when the latter was devalued by 10 per cent. This action, together with a generally declining trend for the kina in late 1982 and early 1983, restored the value of the kina in nominal effective terms approximately to the average level prevailing in the late 1970s (Chart 1).

IV. Medium-Term Prospects

Performance of the economy over the medium term will continue to be linked closely to developments in the external sector. With projects underway or planned to further develop palm oil, timber, fish, and other exports and with some positive initial results already emerging from land distribution schemes aimed at smallholder producers of cash crops, non-mining export volumes are projected to increase fairly rapidly over the next few years. Nevertheless, the overall diversification of exports will be fairly limited, as there appears to be little scope in the immediate future for any substantial development of manufactured exports. At the same time, no significant import substitution is projected. In addition to the paucity of skilled labor and the inhibiting influence of a small domestic market hindered by the lack of internal transport facilities, high domestic real wages are a major impediment to progress in these latter areas. Under these circumstances, the economy will remain highly sensitive to external price developments, which are expected to be adverse. On the basis of longer-term projections of commodity prices made by the World Bank, along with information provided by the major mining companies operating in Papua New Guinea, the authorities now project that over the course of the 1980s, prices of the major export commodities will average about 15 per cent lower than those recorded during the 1970s. This represents a more pessimistic view than previously incorporated in the Government's medium-term plans and reduces the resources projected to be available to the budget.

Table 4. Papua New Guinea: External Debt and Debt Service, 1979-86

(In millions of SDRs)

	1979	1980	1981	1982	1983	1984	1985	1986
External debt outstanding (end of year)								
Public 1/	308.8	401.0	551.2	653.3	708.7	804.8	...	...
Of which: (IMF)	(18.1)	(24.3)	(64.5)	(64.5)	(64.5)	(62.8)	(38.7)	(12.3)
Private	70.9	65.9	239.7	505.7	776.2	952.7	...	...
Of which:								
(Ok Tedi related)	(--)	(--)	(21.5)	(237.6)	(540.4)	(698.9)	...	...
(BCL)	(36.7)	(27.1)	(120.1)	(140.3)	(85.8) 2/	(47.7) 2/	...	...
Total	379.7	466.9	790.9	1,159.0	1,484.9	1,757.5	...	...
(as per cent of GDP)	21.4	23.8	37.3	54.0	64.9	68.5	...	...
(Of which: Ok Tedi related)	(--)	(--)	(1.0)	(11.1)	(23.6)	(27.3)	...	...
Debt service 3/								
Amortization								
Public debt	24.9	22.7	18.0	28.7	35.4	28.2	43.4	34.7
Of which: (IMF)	(5.0)	(5.0)	(4.8)	(--)	(--)	(1.7)	(24.1)	(26.4)
Private debt	30.2	26.8	17.4	35.2	72.7	44.7	83.5	104.6
Of which:								
(BCL)	(18.9)	(10.8)	(8.6)	(2.1)	(56.1) 2/	(22.9) 2/	(11.0)	(11.0)
(Ok Tedi)	(--)	(--)	(--)	(--)	(--)	(--)	(53.2)	(74.4)
Interest								
Public debt 4/	15.6	17.3	36.1	53.8	69.7	84.7	81.4	78.2
Of which: (IMF)	(0.9)	(0.6)	(0.2)	(2.9)	(3.1)	(3.1)	(2.4)	(1.2)
Private debt 4/	8.6	8.1	23.7	50.8	66.6	100.7	101.7	91.3
Of which:								
(BCL)	(3.9)	(3.2)	(8.8)	(18.4)	(11.1)	(9.8)	(5.4)	(3.3)
(Ok Tedi)	(--)	(--)	(0.4)	(15.2)	(36.5)	(66.1)	(71.5)	(64.3)
Total debt service								
Public debt	40.5	40.0	54.1	82.5	105.1	112.9	124.8	112.9
Private debt	38.8	34.9	41.1	86.0	139.3	145.4	185.2	195.9
Total debt	79.3	74.9	95.2	168.5	244.4	258.3	310.0	308.8
(Excluding Ok Tedi)	(79.3)	(74.9)	(94.8)	(153.4)	(207.9)	(192.2)	(185.3)	(170.2)
Debt service ratio (in per cent)								
Public	4.7	4.8	6.5	9.9	11.6	10.3	8.1	6.9
Private	4.6	4.2	5.0	10.4	15.4	13.3	12.1	12.0
Total	9.3	8.1	11.5	20.3	27.0	23.7	20.2	18.8
(excluding Ok Tedi)	(9.3)	(8.1)	(11.4)	(18.4)	(22.9)	(18.2)	(15.7)	(12.7)
Memorandum item:								
Current account receipts	854	838	826	831	907	1,090 5/	1,536 5/	1,639 5/
Of which: Copper and gold exports	(377)	(358)	(371)	(353)	(422)	(469)	...	...

Sources: Data provided by the Papua New Guinea authorities and staff estimates.

1/ Includes public loans acquired to finance the Government's equity contribution in Ok Tedi.
2/ Indicates the repayment of the revolving and stand-by credit drawn in 1981 and 1982.
3/ On basis of outstanding debt at end of preceding year up to 1985.
4/ Assumes an interest rate of 14 per cent on commercial loans obtained in 1983 and 1984.
5/ Includes exports from Ok Tedi of SDR 43 million, SDR 350 million, and SDR 317 million in 1984, 1985, and 1986, respectively.

One major influence operating on the economy in the next several years --although making little positive contribution to the balance of payments or the budget until 1985 and beyond--is the Ok Tedi gold and copper mine and the associated infrastructure on the Fly River. Over the next few years, activity at these projects will be reflected mainly in imports and capital flows in the balance of payments and in sharply increased domestic investment, with some spillover to employment and consumer spending. However, as enclave operations far removed from major population centers, these projects are expected to contribute little to activity outside their immediate areas.

Medium-term prospects for budget revenue are bleak. Ok Tedi revenues will not be forthcoming for some years, and projected government revenue from Bougainville has been sharply reduced. 1/ The level of grant aid to be provided by Australia is currently under discussion. However, even a favorable outcome to those discussions is expected to result in some real decline in that source of funds over the next three years. Moreover, the recent high level of commercial borrowing overseas--while still generally available to Papua New Guinea on relatively favorable terms--is viewed by the authorities as unsustainably high and is to be reduced sharply over the next several years. Therefore, to restore external and fiscal balance, an adjustment program has been adopted under which government spending is to be reduced in real terms.

Under these conditions, growth is not expected to increase substantially over the next several years, with the exception of a surge stemming from the peaking of Ok Tedi investment in 1983. Notwithstanding the weaker terms of trade expected to prevail in the 1980s as compared to the previous decade, however, the balance of payments is expected to improve over the next several years. Moderate volume increases for coffee, palm products, timber, and some other exports and an improvement in the price of copper from depressed levels of recent years will increase exports in 1983 and 1984. Beyond that, Ok Tedi's exports are projected to increase rapidly.2/ With a fall in Ok Tedi imports beyond 1984 and only modest growth projected for the domestic economy, the current account is forecast to improve steadily beyond 1983. A rapid expansion of exports seemingly holds the only promise for growth in the near future, but even that is expected to contribute little to employment in the formal sector--an area of increasing concern.

V. Report on Discussions

The protracted recession in the world economy and its impact on developments in Papua New Guinea led the authorities to initiate progressively stronger adjustment measures during 1982 in order to halt the deterioration in the balance of payments and in the domestic budgetary situation. These efforts culminated in a major adjustment program centered around the 1983 budget. The cornerstone of these adjustment measures is the effort to reduce government spending over the medium term.

1/ Income from BCL to finance the government budget over the period 1983-86 is now projected to be K 83 million (in 1983 prices), as compared with K 280 million projected in 1979. This revision reflects primarily the reassessment of the ore content at the Bougainville mine.

2/ Exports of gold and copper from Ok Tedi are projected to reach about SDR 350 million in 1985 and 1986.

1. Fiscal policy

During 1982, efforts were begun to reverse the trend of rising real government expenditures. Some retrenchment of staff, reduced authorizations for other current expenditures, as well as underspending on public works projects resulting from slower than planned implementation, resulted in savings on expenditures on goods and services 1/ of K 50 million compared with the original budget. Total expenditure was reduced by almost 7 per cent from the originally budgeted level. These expenditure reductions just about matched the revenue shortfall, however, leaving the overall deficit at 6.2 per cent of GDP, about the same level as in 1981.

In framing the 1983 budget and the outline of the medium-term adjustment program, the authorities saw little scope for raising substantial additional domestic revenue in the near term. Adjustments to excise taxes, import duties, and other indirect taxes made with the 1983 budget are estimated to raise K 11 million (2.6 per cent of domestic revenue). Price adjustments and the reorganization of certain public enterprises implemented to increase their commercial orientation, have resulted in increased profits, and public enterprises as a group are expected to pay taxes and dividends to the Government amounting to K 10 million in 1983. With assistance from the Fund, the reporting of such enterprises is being improved and their contribution to the budget is expected to increase over the medium term. Efforts are also underway to improve tax administration and to collect income tax arrears estimated to total about K 45 million. However, tax rates on companies and individuals are viewed by the authorities as already high, leaving little room to increase revenue from those sources. Exemption of certain commodities from export duties has reduced revenue, but the authorities noted that the amount was relatively small and, in any case, they saw a need to help stabilize producer incomes through such exemptions in times of low or declining commodity export prices. In the authorities' view, therefore, only an expansion of the tax base holds any prospect for a substantial increase in revenue. While study has begun on this, and the authorities have expressed an interest in further technical assistance in this area, they saw little prospect for major change in the next few years.

In light of these constraints on revenue, the fiscal adjustment effort is concentrated on reducing expenditures and changing their composition. The Government's policy for 1983 (as announced in November 1982) is to reduce expenditure on goods and services in real terms to a level at least 5 per cent below the pace of spending recorded in early 1982. 2/ This is to be accomplished, in part, through a major retrenchment in the civil

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1/ Defined as total expenditures excluding commercial investments and interest payments.

2/ Insofar as expenditures on goods and services were successfully reduced below budgeted levels during the course of 1982, the budget figure for 1983 does not fully reflect this planned 5 per cent reduction in expenditures when compared with the 1982 outcome. On that basis, expenditures in 1983 would rise by 7 per cent in nominal terms and fall by about 3 per cent in real terms given current prospects for inflation.

service--almost 3,000 government workers or 9 per cent of the total--as well as by cutbacks in procurement by government departments and agencies. The budget was planned under the assumption that the retrenchment effort would be completed by March. By early April, however, only about 10 per cent of the target number of employees had actually been separated from the civil service. However, notices had been served to an additional 30 per cent of the target group. While a contingency fund had been established in anticipation of slow implementation of the program, that fund has been almost fully depleted. The authorities explained that a high-level review of this program was scheduled to help accelerate the retrenchment process, and they were confident that the slippage which has occurred would be accommodated within the original budget, even if that necessitated larger cutbacks than originally planned in other areas.

The staff noted the decline in capital spending by the Government which had occurred in 1982. While rising slightly over the 1981 level in nominal terms, this represented a further decline in real terms from the peak level reached in 1980. The authorities noted that this resulted, in part, from unforeseen lags in the implementation of certain projects, due primarily to a lack of skilled manpower. Budget plans for the current year suggest that capital spending by the Government will remain about the same as in 1982 in real terms, while increasing slightly as a share of total spending. The authorities noted that, given the constraints on overall spending as compared with previously planned levels and the immediate burden on current expenditures of separation payments associated with the retrenchment effort, there was no way of avoiding the elimination of even high priority investment projects. Even over the medium term--at least until 1985 or 1986 when the severe budget constraint may begin to ease as Ok Tedi comes on stream--the budgetary program projects no scope for increasing capital spending in real terms.

2. Monetary policy

Monetary policy for 1982 was initially set against a background of a still deteriorating external position, a continued large overall deficit in the government budget and continuing high world interest rates. On the other hand, the inflation rate was moderating and prospects were for little or no growth in the domestic economy. Notwithstanding concern over the sluggish pace of domestic activity, restoration of external balance was accorded top priority. Under these circumstances, a monetary growth target in the range of 7-10 per cent was set, allowing an expansion of private sector credit of about 15 per cent. Interest rates were kept high in real terms to complement the relatively restrictive monetary target. Administered interest rates were reduced in September and in November 1982, but the authorities emphasized that these adjustments were not intended as a shift to a less restrictive policy stance. Rather, they reflected a realignment of nominal interest rates to reduced overseas rates and to some reduction in domestic inflation.

For the year as a whole, credit expansion fell short of the target (private sector credit increased by 9 per cent) and money expanded by only about 5 per cent, boosted slightly by the somewhat smaller-than-projected deficit in the balance of payments. Although below the original target, this outcome was viewed as generally appropriate by the authorities in view of the still weak external position and was seen primarily as a reflection of the weak state of private domestic credit demand. This latter view is supported by the large unutilized lines of credit in the banking system and the general softening of market interest rates which occurred prior to the reduction of administered interest rates in the second half of 1982.

The decline in bank liquidity which occurred in 1982--continuing the trend of the last three years as the balance of payments weakened and international reserves declined--was not seen by the authorities as the effective constraint on credit expansion. They pointed to assurances from the central bank to commercial banks that the required liquid assets ratio--which had already been reduced from 25 per cent in 1980 to 18 per cent in early 1982--would be reduced further if the liquidity situation worsened. In fact, two additional reductions were effected, to 16 per cent in August 1982 and to 14 per cent in early 1983.

The authorities described monetary policy for 1983 as a continuation of the generally restrictive stance maintained in 1982. When this policy stance was initially established, a further overall deficit in the balance of payments was projected. In this environment, and with an anticipation of little domestic credit being drawn down by the Government, a ceiling on credit expansion to the private sector was set at K 55 million (15 per cent) to permit monetary expansion again in the range of 7-10 per cent.

The rapidly changing environment--both within Papua New Guinea and in the rest of the world--would seem to invite a reassessment of monetary policy. Current projections for the balance of payments are now somewhat more optimistic, although as yet there is little supporting evidence in the movement of international reserves. Moreover, for the first several months of 1983, credit to the private sector had stagnated and the stock of money declined moderately (yielding a year-on-year growth to end-February of only 2 per cent). The devaluation of the kina in March has led to a revision of the projection for domestic inflation to about 10 per cent, and an acceleration of the work program for Ok Tedi has led to a revised GDP growth forecast of over 5 per cent.

Notwithstanding these developments, the authorities expressed caution about revising their basic policy stance. They are awaiting evidence of improvement in the balance of payments and are monitoring price developments following the recent devaluation before altering the course they have set. Similarly, they are awaiting more information on the cause of the stagnation of credit before deciding if policy action is needed on that front.

Several institutional changes are underway which could affect bank lending. First, the authorities have granted charters to two additional international banks, one of which began operations in Port Moresby early this year. There are expectations that competition from these banks--in a system comprising only four banks until early 1983--could favorably alter the domestic credit situation. Second, to provide more effective control by the central bank over the stock of liquid or reserve assets in the banking system, a rediscount mechanism is to be established to serve as a routine source of liquidity to banks. The present, rarely utilized, discount window would be restructured as a true lender-of-last-resort facility. The new mechanism was expected to begin operation in May. Insofar as a fear of liquidity shortages among banks--especially in view of the large unutilized commitments outstanding--has been a factor in the sluggish growth of credit, it is expected to be alleviated by the new facility. Should credit expansion remain slow, however, the authorities agreed that a review of interest rates--and their compatibility with the targeted expansion of credit--would be appropriate in the light of emerging evidence on the balance of payments and further developments in overseas interest rates and domestic inflation.

3. Wages and employment policy

The bulk of labor in Papua New Guinea is employed in rural plantation agriculture and subsistence farming. Nevertheless, wages are influenced in an important way by minimum wage rates set for workers in the formal sector.1/ These wages--especially in urban areas--are deemed by both the authorities and the staff to be unduly high in real terms. Continued heavy dependence on expatriate workers sets a standard which is infeasible for the local population over the longer term. Large increases in urban wages in the early 1970s--just prior to and at the time of independence--raised nominal wages far faster than productivity gains. While some reduction in these high real wage levels was accomplished between 1976 and 1979, near full indexation of wages since then, in the face of a severe decline in the terms of trade, has worsened the situation once again.

The evidence that real wages are high is revealed in many forms. Notwithstanding the difficulty of intercountry comparisons, the magnitude of differences between wages in Papua New Guinea and other Asian countries, including other Pacific Island countries, is striking; the proportion of government expenditure committed to salaries is unusually high; and the lack of development of a significant manufacturing sector, the continued increase in imports of food and other locally-produced products, as well as the persistent high level of unemployment--especially in urban areas--provide at least a presumption of a wage imbalance, both in terms of an urban wage bias and in terms of international competitiveness. While the failure of development of a significant manufacturing sector results at least in part from the smallness of the local market and the severe lack of skilled manpower, studies commissioned by the authorities have confirmed the role

1/ It is estimated that the wages of over 80 per cent of total wage employees are more or less directly determined by these agreements.

of high real wages in inhibiting this activity. The failure of real wages to adjust to levels commensurate with longer-term trends in productivity and changes in the terms of trade has meant that the burden of adjustment has fallen on sectors not protected by wage agreements: rural incomes have declined, unemployment in the formal sector has increased markedly and, under current programs, government services are being cut back severely.

The authorities attempted to address the wage problem within the framework of the latest three-year agreement on minimum wage determination. The Government's submission to the Minimum Wages Board in early 1983 proposed different indexation schemes for urban and rural (primarily plantation) workers which would have allowed some reduction in the real income of the former. Under this scheme, consistent with an official forecast of inflation of 6-8 per cent, the authorities hoped both to shift the internal terms of trade in favor of rural workers so as to stem the migration of the unemployed to urban areas and to reduce real wages in the urban sector. However, the Government's position was not accepted by the Minimum Wages Board which has recommended that all minimum wages be indexed for changes in the consumer price index up to 5 per cent. Negotiations are still to be held with public sector employees who are covered by a separate agreement, but the Minimum Wages Board determination is likely to set a standard for that agreement.

Within the acceptable level of inflation which the Government has forecast, only a moderate adjustment of real wages--perhaps on the order of 10 per cent--can be accomplished over the next two or three years. Nevertheless, the authorities believe this will have a favorable impact on employment creation. It will do little, however, for the urban wage bias present in the current wage structure.

4. Exchange rate policy

Over much of the period since independence in 1975, exchange rate policy had been directed toward insulating domestic prices from the impact of inflationary pressures in the rest of the world. The authorities have argued that, under certain conditions, with expenditure policy directed at maintaining relatively low domestic inflation and a strong external position and wage policy geared to maintain full employment, the exchange rate could be adjusted to control the absolute level of prices.

On various occasions before 1979, the authorities took the opportunity presented by the strong balance of payments position and relatively better price performance to appreciate the kina, particularly vis-a-vis the Australian dollar, thereby holding the real effective exchange rate relatively steady (Chart 1). Incomplete adjustment for substantially lower domestic inflation in early 1979 even led to a depreciation of the kina in real effective terms. However, with a deterioration of relative price performance in late 1979, continuance of this policy led to an appreciation of the kina in real effective terms and a consequent loss of competitiveness. While the adjustment in late 1979 was the last discrete move taken under this policy, movements in the nominal effective exchange rate have not fully offset relative price movements since then, and between 1980 and early 1983 almost continuous, albeit slow, real appreciation occurred.

During this period, the exchange rate was pegged to a basket of currencies. While the official basket may differ somewhat from that employed by the staff to track movements in the real effective exchange rate, the authorities generally accepted the staff's calculations as an accurate portrayal of changes in competitiveness. According to these calculations, most of the appreciation in the real effective exchange rate evident between 1980 and early 1983 was reversed with the depreciation of the kina on March 8, 1983.

The authorities have generally eschewed changes in the exchange rate as a means of shifting the relative prices of tradeables and nontradeables--including labor--in the economy. However, with the failure of wages policy to maintain satisfactory employment levels and with an adverse shift in the terms of trade between the late 1970s and the current decade--necessitating a commensurate shift in the patterns of production and consumption--this policy has been subject to review. The authorities are currently of the view that there is limited scope for altering the relationship between traded and nontraded goods prices because of the predominance of the former in the CPI and the impact of that index on wages. However, to the extent that some margin exists between the indexation agreement and a tolerable level of domestic inflation, i.e., one that does not fundamentally threaten that agreement, they see the possibility of employing the exchange rate more flexibly in concert with expenditure and wages policy to help restore better balance to the economy. The staff emphasized that to the extent that inflation continues to moderate in Papua New Guinea's trading partners, little adjustment in the relative price of tradeables can be expected from that source. As a result, flexible use of the exchange rate may provide the only means by which to bring about the desired shift in relative prices which is necessary to increase employment and begin a process of diversification in the external sector.

5. External debt

External commercial borrowing to fund the government deficit and to support the weakened balance of payments has led to a near doubling of external public debt outstanding since 1979 and an increase in the debt service ratio on public debt from below 5 per cent in 1979 to about 10 per cent in 1982 (Table 4). Over the same period, private debt has increased more than fivefold, and service payments on such debt increased from less than 5 per cent of exports to over 10 per cent. Of the increase in private debt, however, over 85 per cent has been on account of credits for BCL and for Ok Tedi and the infrastructure associated with that project.

Two special factors need to be considered in assessing the external debt situation of Papua New Guinea. The first is that the Government has already begun a significant program of budgetary adjustment which is designed to eliminate official external commercial borrowing by 1986, or even sooner if the balance of payments proves stronger than currently projected. The authorities have indicated that, over the medium term, they would manage external borrowing by the public sector so as to restrict such debt to below 30 per cent of GDP, and associated service payments to 13 per cent of exports. On the basis of the authorities' current adjustment program, the staff estimates that the public debt service ratio will peak in 1983 at 11.6 per cent and decline steadily thereafter to about 7 per cent by 1986. While 1983 is only the first full year of this adjustment program, the authorities emphasized their commitment to reduce expenditure to within available domestic resources and to take further actions toward that aim if developments diverge from those assumed in the medium-term plan.

The second special factor is that the rise in overall external private debt is largely the result of borrowing associated with mining operations at BCL and Ok Tedi. Most of BCL's recent borrowing has been in the nature of revolving credit, and a large share of it is scheduled to be repaid from improved earnings in 1983. The bulk of the remainder of private sector borrowing is associated with developments at the Ok Tedi mine. With the exception of government borrowing to fund its equity contribution in Ok Tedi (included in public debt) and some borrowing by a public corporation (primarily for infrastructure development needed for the mine), this operation is organized on a commercial basis with no government guarantee. Debt service on borrowing by this enterprise will rise rapidly before production for export is scheduled to begin in late 1984 at the earliest. Excluding the impact of this project from both debt service and exports indicates that the total debt service ratio will peak in 1983 and decline thereafter.

VI. Staff Appraisal

As a producer and exporter of primary products, Papua New Guinea's economy has been severely affected by developments in the world economy over the past several years. Stabilization mechanisms have been in place for some years to help insulate the domestic economy from external fluctuations. However, in some cases, the severity of the price declines has overwhelmed the capacity of those mechanisms. The copra fund, for example, has been depleted and loans have been arranged to continue support payments to producers. Similarly, the fall in copper prices, together with the more pessimistic prospects for the Bougainville mine, dramatically changed the projections of the contribution of BCL to government revenue.

With the luxury of hindsight, it also seems that certain policies adopted in the early phases of the current world recession may have aggravated the situation. Continuance of the hard kina policy beyond the period when Papua New Guinea enjoyed a relative price advantage vis-a-vis its trading partners and the move to near full indexation of wages further weakened the external position. Delays in the adjustment of government expenditure to reduced revenues from BCL and from grant aid aggravated the already weak fiscal position. The result by 1981 was the emergence of large deficits in both external and fiscal accounts which have been reflected in a drawdown of reserves and an increasing level of external debt.

Efforts were made in early 1982, primarily through tightened financial policies, to address these problems. However, the recovery of the world economy again failed to materialize, and the severity of the external conditions largely offset the favorable effects of these policies. Further adjustments made during the course of 1982--especially on the fiscal side, together with some improvement in exports later in the year, finally halted the deterioration in the budget and improved the underlying balance of payments position.

The adjustment program outlined in the 1983 budget and in the National Public Expenditure Plan for 1983-86 represents a substantial effort to bring about the adjustment required by the prospects now perceived for the economy. The program focuses on a reduction in real government expenditure, but also encompasses efforts to redress the imbalances resulting from the high level of real wages and reforms aimed at a more efficient operation of the banking system. The staff is in broad agreement with the thrust of the policies which the authorities have introduced. Successful implementation of the 1983 budget is the critical first step in this medium term adjustment program. Slippages which have occurred in the retrenchment of government workers will make that task more difficult and may require additional expenditure cuts in other areas if the overall deficit is to be reduced as planned. There are other important elements of the authorities' policies still to be implemented, which may be useful to review. These include tax policy, monetary policy, and exchange rate policy.

The authorities have noted the current constraints on tax rates and suggested that a broadening of the tax base was the only possible means of generating a major increase in domestic revenue. The burden of the current adjustment effort, therefore, falls on expenditures, with adverse implications for capital spending and, hence, development prospects. The staff generally agrees with the authorities' view, but believes that there may be scope under the current system to alter certain tax rates, particularly if the external sector improves. For example, export tax rates are relatively low and, in effective terms, reduced even further by the exemptions allowed for a wide range of exports during periods of reduced world market prices. Insofar as there are stabilization funds for major crops supported by levies on private producers during periods of relatively high export prices, those funds should be managed so as to provide the necessary degree of stability to producer prices and/or incomes. Adjustment of export taxes during periods of low commodity prices may suggest the need for some modification either in the operation of the stabilization funds themselves or reconsideration of exchange rate policy. On the former, data were insufficient to make a firm judgment on the current position of producer margins, and the staff would suggest further study to ensure that operation of the funds provided appropriate long-term incentives to producers. If there is a question about their ability to do so at projected prices, this should be considered in a review of exchange rate policy.

The setting of monetary policy appeared broadly appropriate early in the year, but should now be reviewed since events are unfolding somewhat differently from what had been anticipated. Some relaxation of the monetary growth target might be appropriate in light of the revised forecast for growth and the need to accommodate the once-for-all impact of the recent devaluation on traded goods prices. Moreover, the compatibility between monetary targets and the current settings of certain instruments, including interest rates, needs to be examined. In particular, if the structural changes being introduced by the authorities do not result in some pickup in the currently sluggish expansion of domestic credit, consideration might be given to reducing the level of interest rates. Such a move would, of course, need to be judged in light of developments in the balance of payments and in overseas interest rates.

The authorities have indicated their intention to consider the use of the exchange rate to help to restore a more desirable balance between wage rates and the price of tradeable goods. The staff endorses this view and emphasizes the additional advantages flexible use of the exchange rate would have on raising agricultural incomes relative to urban wages, and in generating a supply response in order to reduce the burden on pure demand-restrictive measures to adjust to the adverse shift in the terms of trade projected to persist through the 1980s. The staff would encourage use of this mechanism to the limits permitted by the Government's commitment in connection with the wage indexation scheme to maintain a moderate rate of inflation. To bring about the maximum impact on real wages from a given change in the exchange rate, it may be advisable as well to consider the possibility of linking wages to a modified index, one less sensitive than the consumer price index to movements in the prices of nonessential tradeable goods.

One final issue to note is the improvement projected for the current account and the external debt situation after 1983. While the recent rise in the debt service ratio has been worrisome, the exceptional impact of the Ok Tedi operation on that ratio and the commitment of the Government to its medium-term adjustment program reduce concern on that front. In fact, the authorities' medium-term plan projects improvement in the external sector to a position of current account surplus by 1986. The uncertainties inherent in such projections are obvious, as is the need to monitor closely developments in private debt associated with large projects with long gestation periods. But should events begin to develop as projected, there could be room for a higher level of concessional borrowing than now foreseen. In light of the massive infrastructural needs of the economy, the severity of the cutback in government expenditures implied in the adjustment program, and the need to encourage growth to foster greater private sector employment, greater resort to overseas concessional borrowing may be appropriate.

It is recommended that the next Article IV consultation with Papua New Guinea be held on the standard 12-month cycle.

Papua New Guinea - Relations with the Fund
(As of May 19, 1983)

Date of membership:	October 9, 1975
Quota:	SDR 45 million (Proposed SDR 65.9 million)
Status:	Article VIII
Exchange system:	Since December 1976, the kina has been pegged to a basket of currencies of major trading partners. The exchange rate on April 30, 1983 was K 0.84502= US$1.00. Since April 1980, the U.S. dollar has been used as the intervention currency. The representative rate of the kina against the U.S. dollar is the mid-point between buying and selling rates for spot transactions in U.S. dollars as determined daily by the Bank of Papua New Guinea.
Fund holdings of kina:	SDR 89.93 million (199.86 per cent of quota) of which SDR 45 million (100 per cent of quota) were under the CFF.
SDR position:	Net cumulative allocation: SDR 9.3 million. Holdings: SDR 23.38 million, equivalent to 251.4 per cent of net cumulative allocation.
Direct distribution of profits from gold sales:	US$3.2 million.
Gold distribution:	17,116.813 fine ounces.
Trust Fund:	SDR 19.5 million
First period	(SDR 8.3 million)
Second period	(SDR 11.2 million)
Technical assistance:	The Central Banking Department is providing three experts to the Bank of Papua New Guinea to assist in the management of the Bank. The Fiscal Affairs Department has also provided technical assistance, most recently in the fields of information and reporting systems of nonfinancial public enterprises and of customs administration.
Last Article IV consultation:	August 18, 1982. Staff discussions were held in Port Moresby during May 3-13, 1982, (SM/82/123, 6/28/82).

Papua New Guinea--Relations with the World Bank Group 1/

(In millions of U.S. dollars)

A. IBRD/IDA Operations: 2/ (as of April 30, 1983)	Disbursed		Undisbursed	
	IBRD	IDA	IBRD	IDA
Agriculture and rural development	18.0	49.3	8.9	18.6
Education	6.0	16.0	6.0	11.0
Power	34.0	3.0	--	2.8
Telecommunications	17.0	--	--	--
Transportation	24.5	46.1	15.9	--
Total	99.5	114.4	30.8	32.3
Of which has been repaid	15.3	0.5		
Total now outstanding	84.2	113.9		

B. Annual net disbursements:	IBRD	IDA	Total
1978	1.4	8.5	9.9
1979	3.3	6.1	9.4
1980	3.6	5.2	8.8
1981	2.5	15.0	17.5
1982	2.7	7.2	9.9

C. Technical assistance: The IBRD provides technical assistance to Papua New Guinea through its standard lending operations for projects as well as in the context of its economic and sector analyses.

D. Recent economic and sector missions: Economic Mission, February-March 1981. Energy Assessment Report, June 1982. Public Administration, September 1982. Mineral Sector Mission, October 1982.

Source: World Bank group.

1/ IFC has so far made no loans.
2/ Effective loans.

Papua New Guinea

Basic Data

Area and population

Area:	178,260 square miles (461,693 sq. km.)
Population (1982):	3.1 million
Population growth rate (1966-80):	2.3 per cent per annum
GDP per capita (1982)	SDR 682

	1979	1980	1981	1982	Proj. 1983
Selected financial ratios (in per cent)					
Gross investment/GDP	23.5	25.0	27.3	29.0	35.3
(Excluding Ok Tedi)	(23.5)	(25.0)	(26.5)	(17.3)	(18.7)
Overall budget deficit/GDP	2.7	1.3	6.0	6.2	5.9
Total budgetary receipts/GDP	28.3	33.6	33.2	32.0	29.8
(Excluding foreign grants)	(17.5)	(23.3)	(22.3)	(21.3)	(19.5)
Government expenditures/GDP	31.0	35.0	39.2	38.2	35.6
Broad money/GDP 1/	22.3	22.4	24.5	24.9	23.1
Balance of payments, current account surplus or deficit (-)/GDP	3.3	-10.9	-20.9	-20.6	-22.7
(Excluding Ok Tedi)	(3.3)	(-10.9)	(-20.1)	(-12.9)	(-10.0)
Exports, f.o.b./GDP	44.0	38.7	33.7	32.3	33.8
Imports, f.o.b./GDP	34.1	40.1	43.9	43.1	44.4
(Excluding Ok Tedi)	(34.1)	(40.1)	(43.5)	(37.6)	(35.5)
Oil imports/total imports	12.7	17.2	21.4	19.4	14.1
External debt/GDP	21.4	23.8	37.3	54.0	64.9
(Excluding Ok Tedi)	(21.4)	(23.8)	(36.3)	(42.9)	(41.3)
External debt service/exports of goods and services	9.3	8.1	11.5	20.3	27.0
(Excluding Ok Tedi)	(9.3)	(8.1)	(11.4)	(18.4)	(22.9)
Annual percentage changes in selected economic indicators					
GDP (1977 prices)	1.8	-2.5	1.4	-0.4	5.6
Consumer price index (to the fourth quarter)	7.9	11.7	5.6	6.9	10.0
Urban minimum wage (at end of March)	3.8	7.9	10.8	5.4	6.9
Total budgetary receipts	6.0	24.7	-2.8	0.3	9.9
Government expenditures	10.6	18.5	10.2	1.3	10.4
Total domestic credit	27.0	18.2	23.7	15.1	16.0
Broad money 1/	17.9	5.5	7.9	5.3	10.0
Merchandise exports, f.o.b. 2/	30.3	-3.3	-5.8	-3.1	12.0
Merchandise imports, f.o.b. 2/	13.5	29.2	18.7	-0.9	10.4
(Excluding Ok Tedi)	(13.5)	(29.2)	(17.6)	(-12.6)	(0.9)
Terms of trade	15.4	-15.1	-20.5	-4.5	2.2
International reserves and exchange rate					
Gross official reserves, SDRs million, end-period	410.2	365.8	366.2	328.8	328.8
(In months of imports)	(8.1)	(5.6)	(4.7)	(4.3)	(3.9)
Exchange rate, US$ per kina, period average	1.405	1.492	1.487	1.356	1.206 3/

Sources: Data provided by the Papua New Guinea authorities, and staff calculations and projections.

1/ Excludes deposits of Bougainville Copper Limited and those of the commodity stabilization funds.

2/ Data in SDRs.

3/ Assumes end-March 1983 exchange rate prevails for the remainder of 1983.