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**Statement by Mr. Yamaoka on Papua New Guinea
(Preliminary)
Executive Board Meeting 09/26
March 16, 2009**

We thank the staff for their informative set of papers and Mr. Legg for his helpful statement.

Monetary Policy

Since Papua new Guinea (PNG) is a net exporter of commodities, the recent decline in commodity prices are expected to cause downward impacts on real economic activities and prices in the coming quarters. Having said that, since the actual inflation rate remains high, we understand the central bank's willingness to show its vigilance against inflationary risks in order to anchor inflation expectation. We would like to encourage the central bank to accomplish difficult tasks of maintaining its credibility as an "inflation fighter" while flexibly adjusting its policy against possible changes in price environments. We think the central bank's appropriate communication strategy will be a key to achieve these goals.

Besides, in the standard framework of monetary policy, the decline in commodity prices shall be regarded as a factor affecting future price developments. (For example, if the authorities say, "the *current* inflation is still high", and the staff say, "but the inflation *will* decline", there may not necessarily be any particular "divergence" of views between the authorities and the staff.) Is there any difference, between the authorities and the staff, *in terms of inflation outlook in the near future?* We would welcome the staff's elaboration, if any.

Fiscal Policy

Since the combination of loose fiscal policy and tight monetary policy might lead to inefficient resource allocation through "crowding-out" and currency over-valuation, we welcome the authorities' awareness of the importance of maintaining medium-term fiscal sustainability.

In addition, even though the current external environments will require some counter-cyclical policy reactions, the burden of stimulus should be appropriately shared by fiscal and monetary policies. An overly-weighted fiscal stimulus will lead to “crowding-out” and over-valuation of the currency, and eventually hinder the development of non-mining sector, which will have to encounter relatively-high funding costs and disadvantageous competitive environments.

With these remarks, we wish the authorities every success in their future endeavors.