



Speech

Launching of the K100 note and K1 coin

**Minister for Finance and Treasury
The Hon. Bart Philemon, MP**

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Governor of the Bank of Papua New Guinea, Mr Wilson Kamit, CBE

Fellow Ministers and Members of Parliament

Members and Representatives of Diplomatic Missions

Members of the Board of the Bank of Papua New Guinea

Distinguished Guests

Ladies and Gentlemen

I am pleased to be here with you on the occasion of the launch of the K100 note and new look K1 coin.

It is 30 years since the Kina was introduced in April 1975. Prior to that we were using Australian dollars and cents, British Pounds and Shillings, and the

German Mark. If you think that was confusing, imagine having different currencies from our 800 different cultures, and traditions for transactions and trading in modern Papua New Guinea.

Initially only the K2, K5 and K10 banknotes were issued. The K20 banknote was introduced in 1978 and the K50 banknote was introduced in 1989.

The beauty of our modern currency is that it is widely accepted in our country, and retains a lot of tradition and culture. The kina is named after the shell used widely in the highlands and other parts of Papua New Guinea and the toea is named after the shell money used along the Papuan coast.

It is timely that in the year of our 30th Anniversary we introduce the K100 banknote.

I would like to commend the Bank of Papua New Guinea for undertaking currency reforms, and doing so in a way that preserves the characteristics of our rich cultures, while ensuring that the currency is of high quality, secure and cost effective to produce.

The new note is made from polymer substrate which is four times more durable than an ordinary paper note. These notes are more resistant to soiling and tearing.

I would encourage the Bank to continue to produce high quality currency. Counterfeiting has not been a serious problem in Papua New Guinea, but experiences in other countries with higher denomination notes suggests that they can attract forgers and counterfeiters, more so than the lower denomination banknotes.

The decision to introduce the higher-denomination bank note was not taken lightly. The composition of the currency should line up well with the needs of people who use it for day-to-day transactions.

If the denomination is too low, like a one or two toea coin, many people will not use it. If it is too high, say for example a K1000 banknote, people would not use it either. We need coins and banknotes that are convenient for most people to use across the range of transactions which they typically make.

Papua New Guinea's economy has grown over the years. In 2005, total expenditure, and income, will be around K15,000 million.

While many people are still living a subsistence lifestyle, more people are entering a market economy where trade in goods is being increasingly facilitated through cash and non-cash financial transactions. More and more people are using currency to buy and sell things as our economy develops and becomes more 'monetarised'.

The national income and expenditure figure of K15,000 million is made up of many, many transactions. Many are very small, some are large.

Many of these transactions occur without the use of currency. For example, many people get their pay put directly into their bank account. People often pay for things with EFTPOS or cheques. Larger transactions are often paid for by using bank transfers, where the money just goes from one person's bank account to another person's account.

There are, however, still shortcomings in the provision of financial services, particularly in rural areas. The Government is working to improve financial services through the District Treasury Rollout program, which should

complement initiatives by the Bank in encouraging the opening of more branches and agencies in rural areas.

Even with this, however, most small transactions and many medium-sized transactions still take place using cash. And, as the amount of transactions grows as the economy grows, and the average size of transactions increases, more banknotes and higher-denomination banknotes are needed.

The K100 banknote should fill the gap to provide a conveniently denominated note for medium-sized transactions that do not lend themselves to non-cash alternatives.

Of course, it is not only the denomination of the currency that is important. Some people think that when it comes to money that 'bigger is better', but this is not necessarily the case with currency. The value of currency depends on what you can buy with it, rather than what the face value is. Preserving the purchasing power of the currency is critical.

Many countries have had excessive government spending and high inflation, which has eaten away at the value of their money over time. As a result the governments of these countries have ended up issuing higher and higher denomination notes year after year. For example, in 1995, Turkey issued 1 million Lire notes, then in 1997 it issued 5 million Lire notes, then in 1999, 10 million Lire notes, and then in 2000, 20 million Lira banknotes. In 1993 the then Yugoslavia issued 500 *billion* Dinara banknotes.

Even these were small denominations compared with the 100 *trillion* Mark eventually introduced by Germany in the 1920s.

Despite these very large currency denominations, inflation quickly eroded the value of these banknotes and they did not actually buy very much. People in

some of these countries talked about needing suitcases full of the smaller denomination banknotes just to buy ordinary things such as a loaf of bread!

Fortunately, this is not the case in Papua New Guinea. We have enjoyed moderate inflation and so our new higher-denomination notes have been introduced in a phased manner as the economy has grown, and with many years in between. The introduction of the K100 note is a continuation of that measured approach.

Importantly, Government has sound policies in place to preserve and strengthen the value of the currency. Because of the Government's disciplined fiscal policy and prudent monetary policy, inflation has fallen over the past three years and recently has fallen to very low levels. Inflation is now only 1 per cent. On average, prices have hardly gone up at all over the past year and some prices have fallen.

This means that the value of our money, including the new K100 banknote, is being preserved and not being eaten away by price increases.

Some people worry that the introduction of new currency will be inflationary. This is not the case. The new notes have a higher denomination, but they will circulate more slowly. They will also largely replace existing K50 banknotes in some of the larger cash transactions.

The Government can continue to support low inflation (and hence a stable value of the currency) by not overspending and by fostering productivity growth in the economy through sustained reform.

The logic of this is straightforward. Higher productivity growth reduces costs and this reduces prices. With lower prices, the currency buys more.

I should also mention that our strong expenditure management, and supportive global conditions, has also supported the *international* value of our currency. For many years our currency had fallen in value against the other major currencies. This meant that the prices of imports kept going up and our money was able to buy less and less. However, over the past year, the value of the Kina has gone up against most of the major currencies. That is, we can now buy the same amount of goods and services from abroad with fewer Kina.

These good outcomes reflect very favourably on the Bank of Papua New Guinea, whose job it is to maintain price stability. The Bank has done its job well with prudent monetary policy complementing the Government's disciplined fiscal stance.

Once again, we can support the international value of our currency by improving productivity through economic reform. Increased productivity reduces costs and provides high rates of return on investment. This makes us more competitive and attracts capital into Papua New Guinea, increasing the demand for, and value of, our currency.

Before I finish, let me say a word of caution. Despite the introduction of the new notes, I would still encourage people to use the banks' services as much as possible. It is risky to carry around large notes since they can get lost or be stolen. It is much safer to use other methods of payments if possible.

Not only are the non-cash methods safer, but they also provide better records to show that you have paid or received money. It is also less tempting to waste money if it is safely sitting in a bank account earning interest, rather than sitting in your pocket.

Having said that, the K100 note will be convenient for many people and a welcome addition to our currency range. It will complement the non-cash

methods of conducting financial transactions, providing additional flexibility for us all.

I am sure you are all anxious to see the new currency. You will see that the themes have been carefully chosen. On the new K100 note, The National crest and the National Parliament building appear on the front of the note to symbolise nationhood and unity, while the designs on the back of the note trace developments over 30 years in agriculture, fishing, forestry, oil and gas, mining, tourism, transport and communication and other technological developments.

Ladies and gentlemen, I am also pleased to announce the introduction of a new look K1 coin. The new look K1 coin retains all of the design features of the old coin, but it has been reduced in size and weight. The hole in the middle has been retained, signifying the importance and uniqueness of the traditional method of handling currency in many parts of Papua New Guinea.

The reduction in size and weight ensures that the new coin is lighter to use and cheaper and more economical to produce. The old and new coins will circulate together, and the old coin will be gradually withdrawn from circulation over the next 12 months. The old K1 coin will no longer be legal tender after 21 November 2006.

The Governor has also informed me that work has commenced towards demonetizing the 1 and 2 toea coins early next year. These coins have practically become redundant and it is cost efficient to discontinue their use.

I would urge the Bank of Papua New Guinea to ensure a smooth and convenient process for the withdrawal of the old one kina and the one and two kina coins so as not to disadvantage our people. I also urge the trading houses to assist in their rounding of prices of goods to the nearest 5 toea.

I commend the Bank of Papua New Guinea for taking the initiative in introducing the K100 note and these other reform initiatives.

With these remarks, it is now my honour and privilege, ladies and gentlemen, to officially launch the new 100 kina banknote and one kina coin.

Thank you.