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Statement by the Hon. **BART PHILEMON**,
Governor of the Bank for **PAPUA NEW GUINEA**,
at the Joint Annual Discussion

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I join my fellow Governors to convey my delegation's appreciation to the President of the World Bank Group, Managing Director of the IMF, and the Government of USA for the warm hospitality and excellent arrangement in making our stay a pleasant one.

I also convey my Government's congratulations to Mr. Rodrigo De Rato on his appointment as the new Managing Director of the IMF. I am confident that he will continue to advance the good working relationship with all member countries.

In my first address to this forum during the 2002 Annual Meeting, I highlighted a number of difficulties and challenges that Papua New Guinea would have to overcome, in order to achieve macroeconomic stability and sustain economic growth over the medium term.

These challenges will always be present now and in future, in part to Papua New Guinea's comparatively small and open economy, which will continue to be affected by events and developments in the global economic and political arena.

I, therefore, reiterate that meetings such as this provide an important forum for us to have continuous dialogue with these two institutions, and our bilateral and development partners from around the world. The forum also gives us the opportunity to share and inform the international community, and in particular, our donor friends, on the latest developments in our economy and the challenges that lie ahead.

Since late 2002, the Government has acted responsibly by undertaking a mixture of macroeconomic and structural reforms to restore fiscal discipline and improve economic conditions, which was further aided by the improved global economic conditions.

The Government continued to implement the structural reform program of promoting good governance, sustaining macroeconomic stability, improving public sector performance, and removing impediments to business and investments, because it believes that continued adherence to these reforms represents the best means of enhancing economic and human development.

The country is now benefiting from the Government's prudent fiscal management and some of the reforms undertaken so far. Economic growth has picked up and employment is growing, while inflation and interest rates have declined sharply. On the external front, the exchange rate has stabilized and foreign exchange reserves are at record levels.

Whilst economic conditions have improved, there is still a lot of hard work to do, particularly in the areas of public expenditure and continuous implementation of structural reforms. The various fiscal issues and the challenge of mobilizing resources to

address many of the social issues threatening Papua New Guinea's development aspirations will exert considerable pressure on the budget framework over the medium-term.

The Government is aware that accelerating and sustaining growth requires not only quick fixes but sustained period of political and macroeconomic stability, and continuous adherence to structural reform. The Government will, therefore, continue to pursue short and medium-term fiscal and structural reforms to sustain and build on this growth.

The medium-term picture, and more immediately, the outlook for next year, will depend not only on how well the Government manages the immediate pressures and the challenges that it is confronted with today but also the supportive role that its development partners such as the Bank and the Fund have to play in the whole process.

The Government is keen to address the challenges that lie ahead and has undertaken a number of policy initiatives, together with the public expenditure review and rationalization exercise with the World Bank and the Enhanced Co-operation Program with the Australian Government.

Our Budgets over the next couple of years will be framed against a background of improving economic conditions and an on-going reform agenda but with spending constrained by a legacy of excessive debt and a misallocation of resources – with the aim of getting the balance right through the “adjustment and prioritization” exercise.

The Government intends to achieve a target budget deficit of 1.0% of GDP in 2005, with a view to achieving a balanced-budget over the medium-term, and reduce the debt-GDP ratio from the current level of 60% of GDP to around 55% of GDP by 2007. The full details of the medium-term debt management strategy will be announced in the upcoming 2005 Budget.

Consistent with new Medium Term Development Strategy (MTDS) 2005-2010, more attention will be focused in priority areas of transport infrastructure, rehabilitation and maintenance, basic education, primary health care, law and justice, and programs that promote rural income earning opportunities.

The MTDS 2005-2010 will be an integral component of the Government's overall economic and public sector reform program, which will map-out an appropriate development strategy for the period 2005 to 2010 and a matching policy framework that will guide the Government's budgetary allocations and wider policy initiatives. The objectives of the MTDS 2005-2010 are consistent with the Millennium Development Goals.

This document would also set the basis for productive discussions between the Government and the development partners, in order to ensure that all development programs, whether government or donor funded, have to subscribe to its development strategy – MTDS.

This implies that improved harmonization of donor support is crucially important in achieving the Millennium Development Goals. Aid coordination and delivery mechanisms in Papua New Guinea were reviewed this year, with a view to moving towards improved harmonization of aid and towards sector wide and whole of Government budget support forms of delivery.

The Government, in collaboration with the United Nations Development Program (UNDP), has successfully completed its first Country Report on its performance in the implementation of the Millennium Development Goals. The Draft Report is now before the Government for approval.

The implementation of the Enhanced Co-operation Program is underway with the placement of Australian officials in key economic, spending agencies, law and justice agencies, border management and transport security agencies and police.

The Australian officials will work side-by-side with Papua New Guineans to strengthen Papua New Guinea's ability to develop and implement sound economic policies, manage our finances, maintain law and order, tackle corruption, and improve border security, so that investor confidence is maintained and an environment for broad based development is facilitated.

The Government is also engaging in closer dialogue with the private sector. The Consultative Implementation Monitoring Council is an important forum that allows the private sector and civil society to engage with the Government and provide meaningful input into the National Budget and contribute towards the policy framework.

In response to the call for greater responsiveness of the Government to private sector concerns, a National Working Group on Removing Impediments to Business and Investment was established by the Government in August last year to assist in facilitating the Government's policy of fostering economic growth through increased exports and improved business and investment climate. The National Working Group is currently considering various initiatives to facilitate and promote commerce and business within Papua New Guinea.

The main thrust of adhering to reforms and adjustment, as well as maintaining the on-going and future dialogue with our development partners, is to stress that the achievements of the current reforms and adjustment are the beginning of a process of evolutionary development to put PNG back on a path to sustainable economic growth and development. The task is enormous and requires a collective and partnership approach with the development partners, including the World Bank and the Fund.

In concluding, I would like to acknowledge and express my Government's sincere gratitude to the management and staff of the World Bank and the Fund for their continuous support in PNG's development effort.