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MULTILATERAL INVESTMENT GUARANTEE AGENCY

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

**Papua New Guinea Country Statement**  
2002 Joint Annual Meeting of the  
International Monetary Fund and World Bank

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Mr. Chairman,

I am pleased to be at my first joint annual meeting of the World Bank Group and the IMF. These meetings provide an important forum for engagement with these institutions and our bilateral partners and friends from around the world.

Before continuing let me firstly join other Governors in thanking the Government and the people of the United States of America for their hospitality. Let me also extend a warm welcome to East Timor as the newest member of the International Monetary Fund and the World Bank Group and assure them of PNG's support as they build their nation.

Mr. Chairman, our country is a comparatively small and open economy, which continues to be affected by, and has had to respond to, events and developments in the global economic and political arena. Whilst there are potential benefits to our country from the expected recovery in the world economy and especially from our major trading partners, there are noticeable downside risks.

PNG also joins other member countries in commending the initiatives taken to reduce poverty and hunger, and increase empowerment through education, health and gender equality. These are worthy goals and all efforts to achieve them by 2015 is supported.

Trade liberalisation can serve as a vehicle for economic growth and poverty alleviation. In this respect, advancing the Doha agenda must be a key priority for all economies. We encourage the advanced economies to grant increased market access to developing economies.

Our economy has experienced negative real growth for the last three years and we are striving to break free from this path, and move towards achieving long term sustainable real growth.

In August this year a new Government was elected to lead the country for the next five years. The introduction of the landmark Integrity of Political Parties and Candidates Act earlier in 2002 has meant that there will be far greater political stability in Papua New Guinea over the next five years.

This gives the new Government the opportunity to focus on the social and economic development of our country over the medium term.

One of the first moves of our new Government was the introduction of a supplementary Budget for 2002. This was necessary as the previous Government had handed over a fiscal situation for 2002 that was no longer sustainable.

The adjustment undertaken was significant, which comprised a downward adjustment in expenditure to the value of 4.5% of GDP.

This adjustment, though painful, was necessary in order to stabilise the fiscal and macroeconomic situation, and also set the base for the development of a sound and realistic fiscal framework to cover the next five years.

Whilst the new Government inherited a difficult fiscal position for 2002, substantial work was undertaken by the previous Government with regards to the institutional strengthening and necessary structural reform required for macroeconomic stability and economic growth.

The implementation of the reform program benefited from the support of the World Bank and the IMF, and other multilateral and bilateral partners. This included a Stand-By Arrangement of SDR85.5 million from the IMF for balance of payments support and a US\$90.0 million Governance Promotion Adjustment Loan with the World Bank.

The new Government is committed to continuing this process of reform that is necessary for the promotion of good governance, strengthening economic management, improving public sector performance and removing barriers to investment and economic growth.

Our focus is to tightly manage the 2002 Supplementary Budget to ensure a satisfactory result and to develop a responsible budget for 2003. Achieving success in these two areas will be critical to restoring confidence and resurrecting economic growth over the medium term.

In line with this, one key new area of reform will be the development and finalisation of our Medium Term Development and Fiscal Strategies for the period 2003 to 2007.

The Medium Term Fiscal Strategy and its accompanying Fiscal Framework will represent an important break from the past practice of single year budgeting. The development of the strategy will afford the Government the opportunity to be proactive and to respond in a **measured** way to changes in projected revenue flows and expenditure requirements.

The Medium Term Fiscal Strategy will set the framework within, which our Medium Term Development Strategy will be implemented. As the Government's overarching development strategy, the Medium Term Development Strategy will provide the guiding policy and strategic framework to ensure that all levels of Government expenditure has the greatest impact on sustainable growth, rural development and poverty alleviation.

The Medium Term Development Strategy will be based on three core principles of effective public expenditure management - fiscal discipline; strategic prioritisation of available resources; and efficiency of programme implementation. The principle of fiscal discipline will be incorporated into the Medium Term Development Strategy through the Medium Term Fiscal Strategy.

Importantly, the Medium Term Fiscal Strategy will impose the discipline of a genuinely hard budget constraint that is adhered to by our Government at both the political and bureaucratic levels. A realistic hard budget constraint will be essential for ongoing macroeconomic stability. Further, it will insure against the disruptive through-the-year cuts to spending arising from unsustainably high expenditure levels set during budget formulation.

The expenditure priorities that are likely to be highlighted in our new Medium Term Development Strategy include basic education; primary and preventative health care; transport infrastructure maintenance; law and order; and generating income earning opportunities for Papua New Guineans, especially in the rural areas, where 85 percent of the population still resides.

In the implementation of our medium term strategies, the support of and engagement with our Development partners will be crucial. It is envisaged that part of this support will be in the form of a comprehensive Public Expenditure Review, which will define expenditure priorities within our medium term budget framework.

The end of 2001 saw the successful completion of a Stand-By Arrangement with the International Monetary Fund and the Governance Promotion Adjustment Loan with the World Bank. Unfortunately, and in part due to the global economic downturn, these interventions did not achieve their objectives of generating growth in the non-mining private sector of the economy.

For 2003, and in our medium term macroeconomic framework, a financing gap currently does exist, despite the Government's planned move to target much lower fiscal deficits.

In view of the very difficult external and domestic circumstances confronting Papua New Guinea in recent years, it is important that we continue to work closely with our multilateral and bilateral partners to implement a reform agenda. This will provide a foundation for solid and sustained growth, which will be further enhanced once robust recovery of the world economy sets in.

Mr. Chairman, in brief conclusion I extend my thanks to the IMF, the World Bank Group and other multilateral and bilateral partners for their financial and technical assistance provided to Papua New Guinea both currently and over past years. My Government looks forward to continuing this good relationship. You can be assured of the full support and co-operation of our Government to your activities in Papua New Guinea in the future.

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