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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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Mr. Chairman,

Let me first congratulate you on assuming the Chair of this important annual meeting.

I am pleased to be at my second joint annual meeting of the International Monetary Fund and the World Bank. This meeting provides an important forum for engagement not only with the International Monetary Fund and the World Bank Group but also with other development and financial agencies.

Let me also commend the Government and people of the United Arab Emirates on their hospitality and organization. The organization of this meeting has been superb and every detail well attended to. Further, I laud the efforts of the leadership of the United Arab Emirates to make their country a hub for international commerce, economy, finance and tourism. I will certainly take time to study how the United Arab Emirates has used its oil and gas income to spur sustainable growth in the other sectors of the economy.

Papua New Guinea continues to be mired in a growth trap. Our efforts to reinvigorate broad and sustainable growth have been assisted by favourable external conditions, particularly in relation to our export commodity prices. However, the risks to the economic outlook remain considerable. Papua New Guinea is now a net external loan repayer, our expenditure budget has become locked into a yearly cycle of unproductive expenditure and our resource envelope is being gradually eroded over time as a result of an economy in recess and a trend decline in mineral and oil production.

The Papua New Guinea Government recognizes the very significant challenges that lie ahead over the medium term. These are challenges that we cannot confront alone and we look to our development partners, both the international financial intuitions and our bilateral partners for assistance.

The systems of governance in Papua New Guinea are sound and robust. The weaknesses are not systemic – in that they are natural product of the system but rather reflect the

weaknesses in our accountability framework. Transgressions on the part of politicians and bureaucrats are not being punished and this reflects in part two key things. Firstly, the politicization of the system, especially in bureaucracy and the instability of the political leadership.

We are taking measures to restore confidence in our systems of governance. Firstly, the introduction of the landmark Integrity of Political Parties and Candidates Act in 2002 will ensure that there will be far greater political stability in Papua New Guinea over the next five years. The proposal to increase the period to move a vote of no confidence in a government from eighteen months to thirty-six months will not only further buttress political stability but also provide a stable and consistent environment for implementation of economic and social policies. This will also facilitate sounder and more stable macroeconomic management.

We are rebuilding a public sector that is professional, has integrity and is committed. The first phase of the reform involved (i) building a performance-oriented public service, (ii) reorienting personnel management systems and processes, (iii) strengthening probity and oversight agencies, and (iv) improving delivery of major services.

Further reforms include instilling an appointment process that is de-politicized and merit-based. Legislative amendments have been introduced that compel all vacant positions of the heads of national departments and provincial administrations to be advertised. This will go through an independent screening process before a shortlist is submitted to a Ministerial Committee to further consider before Cabinet makes an appointment. These reforms are also being extended to cover the appointment of heads of statutory agencies as well.

Wider consultations have taken place in the preparation of the National Poverty Reduction Strategy and the 2004 – 2007 Medium Term Development Strategy for Papua New. The Poverty Reduction Strategy has been informed by a participatory poverty assessment exercise and it is very clear what the people deem crucial for enhancement of their lives – transport infrastructure and water are the top two priorities, followed by key services such as primary health care and basic education.

Formal consultative mechanism exists for engaging with civil society organizations. There is the Consultative Implementation Monitoring Committee, the Public Sector Reform Advisory Group, the Impediments to Business and Private Sector Working

Committee, and the National Development Forum. These are all fora that allow private sector, non-governmental organizations and community based organizations to have a say on and input into Government's policy.

Projections of key financial indicators underpinning the 2003 Budget have deteriorated in large part due to budget financing difficulties relating to delays in receiving the proceeds from asset sale and the carry-over of 2002 expenditure into 2003.

The changes in economic indicators, including inflation and interest rates, has exerted immense pressure on the 2003 Budget. To offset the interest bill, the non-interest expenditures have had to be adjusted downwards and we remain firmly committed to achieving a fiscal deficit outcome equivalent to 2 percent of GDP for this year.

A tightened fiscal stance has supported independent monetary policy with the result that the exchange rate has stabilized and international reserves have been rebuilt over 2003. Inflationary pressures are starting to subside but the Government recognizes that the economic situation remains fragile and that high interest rate regime will remain in place for some time yet.

The Medium Term Fiscal Strategy and its accompanying Fiscal Framework represents an important departure from the past practice of single year budgeting. The strategy compels the Government to be proactive and to respond in a measured way to changes in projected revenue flows and expenditure requirements. The expenditure priorities under the Medium Term Development Strategy are basic education; primary and preventive health care; transport infrastructure maintenance; law and order; rural development; and poverty alleviation through generating income earning opportunities for Papua New Guineans.

The Government has established a formal process to facilitate detailed strategic review and rationalization of the expenditure budget. This commenced with a detailed agency by agency review of the 2002 budget submissions. The work will continue in 2003 in relation to the 2004 budgets. I am leading this ongoing strategic review along with a small group of central Economic Ministers. Our work is being supported by a detailed and technical Public Expenditure Review and Rationalization (PERR) exercise supported by the World Bank, Asian Development Bank and the Australian Government. It is intended that the PERR exercise will allow further structural adjustment of the budget to facilitate greater focus on PNG's important medium development priorities.

In addition to the fiscal adjustments, the Government will press forward with reforms to address the structural constraints within the economy as well as institutional reforms to

instill good governance and improve efficiency within the public sector. The Government will continue to support ongoing governance measures, and these include strengthening of probity and oversight agencies; strengthening Government procurement practices and procedures; improving debt management; investment liberalization and promotion of the private sector participation; and review of the current privatization process to ensure that proper procedures are adopted and clear net benefits to people of Papua New Guinea can be demonstrated.

The Government remains committed to the broader policy of privatization. Privatization of non-core assets will proceed since these assets continue to be a drain on the National Budget, and act as a constraint on the private sector. Papua New Guinea suffers from both poor service standards in core infrastructure areas, and a severely limited reach of these services. The full privatization of core assets is unlikely to address these issues in the short term but will yield benefits in the medium and long term. Firstly, privatization will strengthen integrity of institutions of State. Secondly, it strengthens the National Budget by ending the need to meet the ever-increasing losses and debts of government-owned businesses, and allow the Government to focus expenditure on provision of basic services such as health, education and transport. Finally, it will enhance the ability of the Government to use proceeds to retire short-term domestic debt.

In order to tackle corruption, progress has been made through the strengthening of probity and oversight agencies. The Government will continue these reforms, including development of action plans for strengthening the Department of Attorney General and the Inspections Division of the Department of Treasury. In addition, criminal activity will be targeted under the MTDS with law and justice identified as an expenditure priority.

Mr. Chairman, I share the dismay at the breakdown of the Doha Round in Cancun and the danger it poses to further trade and services liberalization. I call on both the advanced and developing countries to restore and advance the Round for the betterment of citizens of the world and particularly for developing nations.

Papua New Guinea has embarked on a comprehensive trade liberalization program and my Government remains committed to it. The Government has announced a Tariff Review in response to demands from sections of the Papua New Guinea business community and the findings of an independent taskforce will report back to Government before November 2003. It is worthwhile to note that our tariff rates are well below WTO agreed bound rate and upward adjustments are not being considered at this point in time.

In closing let me affirm my Government's commitment to advancing structural reforms that will yield growth dividends for our economy. Restoring good governance remains one of the central planks of the Government's objectives and we will re-intensify our efforts to confront these difficult challenges.

Looking forward, we welcome Fund and Bank support as we face the difficult challenges over the medium term.

I thank you Mr. Chairman.