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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 would like to thank the President of the World Bank Group, Managing Director of the International Monetary Fund, and the United States Government for hosting the Joint Annual Discussion and for the warm welcome that we have received. This is an excellent opportunity for all of us to share, and learn from, the wealth of experience and knowledge that organizers and participants bring to these discussions.

I would also like to thank the Fund for seeking to have the Pacific Islands Forum Secretariat attend this year. We are increasingly aware of the importance of developing and maintaining cooperation and consultation between member governments in the Pacific and these meetings are an opportunity for us to develop a shared understanding of the key issues and challenges facing our region and the world.

Papua New Guinea hosted the Melanesian Spearhead Group Summit earlier this year and next month we host the African Caribbean and Pacific Leaders' Summit and the Pacific Island Forum Meeting. These events – in our 30th year of Independence - reflect our commitment to working closely with other countries to build healthy regional economies within an integrated global economic framework.

At the time of my first address to this forum during the 2002 Annual Meetings, Papua New Guinea had gone through a protracted period of poor economic performance. Economic growth had contracted for three years in a row, external conditions had deteriorated and the exchange rate had fallen. The deficit had increased. Inflation had risen sharply and the subsequent interest rate rises, coupled with high levels of public debt, were putting severe stress on the budget.

Papua New Guinea faced a substantial challenge to restore economic and financial stability and to put the economy back onto a solid medium-term growth path.

In the past three years we have worked hard to address those challenges and I can report that we have made some good progress.

On the political front, we have started to see some much needed political stability, which is a necessary condition for macroeconomic and financial stability and for sustained economic growth. The current government has now been in office for several years and looks set to serve out its full term. Political stability has been enhanced by a range of measures including the introduction of Limited Preferential Voting and the enactment of the Political Parties and Integrity Act.

Political stability has enabled us to introduce more policy stability. The Government is

setting its fiscal policy within the range of medium-term frameworks. These frameworks – the *Medium Term Fiscal Strategy*, the *Medium Term Development Strategy* and the *Medium Term Debt Strategy* – lay out clear medium-term plans which the Government has followed in recent years, and will continue to follow.

The *Medium Term Fiscal Strategy* maps out an affordable and sustainable path of public spending and the *Medium Term Development Strategy* sets out the Government's medium-term development priorities. The *Medium Term Debt Strategy* maps out a path of debt adjustment to provide for better management of public debt and reduced exposure to risk.

These strategies have been complemented by an ambitious reform agenda. Government's broader public sector reform has been promoted under the *Strategies for Supporting Public Sector Reform 2003-2007*, and the *Public Expenditure Review and Rationalisation* process which has had solid donor support. Trade and financial services liberalisation, and a range of other reform initiatives aimed at reducing business impediments, have created a more supportive environment for private sector growth.

We have also benefited from a supportive global economy. Global economic activity has been solid and the prices of the major commodities that we export to the rest of the world have increased sharply.

Together, prudent economic and financial and economic management, and a supportive world economy, have started to produce results. There is now increased investor and consumer confidence in macroeconomic management and longer-term growth prospects for Papua New Guinea's economy.

Economic growth is now expected to reach 3.0 per cent in 2005. Investment has increased, profits are up and more jobs have been created.

Inflation has fallen to around 1 per cent in 2005. Interest rates have fallen sharply. The exchange rate has stabilized and the current account is in surplus. Foreign exchange reserves have also remained high and are around near-record levels. As we move into 2006 we can have some confidence that our economy will continue to expand.

On the fiscal side, the combined effect of solid expenditure control and buoyant revenues is that the budget balance for 2005 is likely to be a substantial surplus. This follows a small surplus in the previous year. As a result of these good outcomes, the Government has been able to pay off some of its debt. Public debt as a percentage of GDP has fallen substantially over the past couple of years.

Despite these good results we are not complacent. We recognize that the macroeconomic situation is still fragile and that we can easily be derailed by adverse domestic or global shocks.

We also understand how easily it is for fiscal discipline to slip, especially when conditions look like they are improving.

We are very much aware of the daunting challenges we face in getting our economy to work well at the micro level and in improving service delivery to the community.

We are aware of the risks from the HIV/AIDs pandemic and other health-related issues, and the difficulty in putting in place systems to manage these risks.

More generally, we recognize the ongoing challenge we face to grow the economy and meet our development aspirations.

Like other developing countries, we know we can not, and should not, face these challenges alone. The increased linkages between countries through trade and investment, and the commonality of interests in poverty reduction, health, security and a host of other issues means that cooperation and shared solutions to shared problems is becoming increasingly important.

We are fortunate to have the knowledge and expertise, and in many cases the financial support of our development partners around the world.

We need to ensure that we are able to make use of this support most effectively. International institutions can help to do this by ensuring that support is properly targeted and coordinated, and that it is provided in such a way that it complements institutional development and policy design.

More specifically, in Papua New Guinea's case, we need to harmonise our development efforts, meshing the development support from our partners with Papua New Guinea's core medium-term development strategies and development priorities. National ownership, leveraged by international support, will be a potent force to sustain our momentum.

I look forward to our discussions at this meeting and the insights that participants will bring. We have much to discuss and hopefully much to learn.

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 Papua New Guinea's development effort.