2013 ANNUAL MEETINGS
World Bank Group
International Monetary Fund
Washington, D.C.

Governor's Statement No. 33

October 11, 2013

Statement by the Hon. **DON POLYE,**
Governor of the Bank and the Fund for **PAPUA NEW GUINEA**

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President of the World Bank, Managing Director of the International Monetary Fund (IMF), fellow Governors, ladies and gentlemen.

Before I proceed, let me take this opportunity to express my sincere gratitude on behalf of the O'Neill-Deon Government to the World Bank and the IMF for the continuous commitment to Papua New Guinea's development priorities in terms of its invaluable technical assistance. In this regard, we support the World Bank Group Strategy presented for endorsement because we believe it will develop the Group into a more effective institution delivering on its development agenda.

It is an honor and a great privilege for me to represent the Government of Papua New Guinea at the 2013 Annual Meetings of the Boards of Governors of the World Bank and the Fund. Let me join my fellow Governors in thanking the management and staff of the World Bank and the IMF, and the United States Government for hosting this year's Annual Meeting.

We also believe that by better integrating its constituent institutions and more effectively leveraging its global knowledge for local solutions, the World Bank Group can truly be a 'Solutions Bank'; ensuring value for money; greater effectiveness and efficiency; and improving partnerships. We also welcome the Strategy's emphasis on knowledge and partnerships. This will improve the World Bank Group's capacity to contribute to the global development agenda, which we believe will have significant relevance to PNG's development context. PNG supports WBG's initiatives on Global Infrastructure Fund, Public-Private Partnership in the Pacific and Disaster Risk Reduction and Catastrophe Risk Management. PNG will contribute and develop these initiatives in PNG and across the region.

On the same note, we also recognize and appreciate the technical assistance from the IMF in building capacity through various areas and programs, including reviewing our Tax system, the Government Financial System, and the Sovereign Wealth Fund. We would continue to encourage WBG and IMF to work together with other development partners to support PNG's development agenda in a collaborative manner.

Let me turn to my own country of Papua New Guinea. Despite the fact that Papua New Guinea is endowed with vast natural resources, the country faces the most significant development challenges including weak public services, poor health and social indicators, emerging capacity constraints and the adverse effect of climate change on vital transport infrastructure. We are also vulnerable to external development because we are small mining and agriculture based economy, and open economy and certainly not insulated from the developments around us.

Globally, the concern for our economy is the general weakening demand and falls in commodity prices from their highs in the first half of 2013. Despite this concern and the challenge we face, the Papua New Guinea economy continuous to grow strongly and confidence remains high with the major investments most notably in the petroleum sector with the PNG LNG project progressing uninterruptedly and on schedule for completion and delivery of first cargo. The strong growth is being further reflected in increased business confidence, higher employment growth, stronger investment and higher business profits. We need to ensure that the significant revenue streams from the LNG petroleum sector over the next decade are prudently managed and reinvested in other growth sectors to generate more longer term, broad based and therefore sustainable growth.

The Government's adherence to its prudent fiscal policies and good macroeconomic management has seen twelve years of uninterrupted growth in 2012. The Government is committed to continue this trend in 2013 and beyond and will return its debt to GDP ratio from 35% to below 30% from 2015, creating a fiscal buffer for future global, regional and domestic economic shocks. This year the PNG Government commissioned a Tax Review, and will shortly finalize plans for a Financial Services Review to create more inclusive access to financial services in the country. Both reviews will lead to the adoption of further structural reforms to drive broad based economic growth into the future.

Ensuring this growth translates into tangible economic benefits for our people remains a great challenge. In this regard, the Government has reviewed its existing service delivery mechanisms to improve service delivery at the provincial and district levels. There will be increased investment in the non-mining sectors to diversify the economy with a commitment to increase the share of the total budget allocated to the key enablers of the Medium Term Development Plan (Health, Education, Law and Order, Agriculture (particularly at the Small to Medium Enterprise level) and Transport Infrastructure) to two thirds by 2017. A number of key structural reforms such as the telecommunications, energy, financial and public sector reforms will continue to be undertaken to strengthen and support ongoing economic growth and development outcomes.

Let me briefly update you on key elements of our budgetary position from the 2013 Mid Year Economic and Fiscal Outlook Report.

PNG economy is expected to remain strong in 2013. According to PNG's Mid-year Economic Fiscal Outlook (MYEFO) released in August, the economy is expected to grow by 6.1 percent, up 2.1 percentage points from the 2013 Budget estimate, driven largely by extended growth in the mining and quarrying sector, the ongoing PNG LNG construction phase and the higher than expected stimulus effect of the increased Government spending.

Papua New Guinea's mineral sector is leading growth, expanding by 13.0% in 2013 as production bottlenecks clear at a number of gold and copper mines and production at the new Ramu nickel and cobalt mine ramps up. Continued declines in petroleum production, as reserves in major oil fields become depleted, will offset some of this growth in 2013, but the onset of LNG exports will greatly boost mineral output late in 2014, with overall growth in the sector expected to surpass 60% in that year.

With the winding down of PNG LNG construction and lowering of Foreign Direct Investment in mineral sector fiscal stimulus is being applied to boost activity in the non-mining sectors notably the construction sector, with spending on projects expected to pick up in the latter half of this year. Small businesses to large enterprises are expected to benefit from the positive impacts of Government's fiscal stimulus and provide for alternative employment streams required due to decline in the PNG LNG construction phase.

Future spending growth must be contained to maintain macroeconomic stability. Already there are signs of fiscal challenges emerging. Revenue collection is being dampened by falls in international prices for some of PNG's major exports. Since the start of 2013, the price of gold has fallen by 20%, copper by 12%, and oil by 6%. These prices are now below 2013 budget projections, indicating that if current prices persist, authorities will have to either cut spending or find additional sources of revenue to meet their deficit target of 7.2% of GDP.

Inflation at 5.6 percent is surprisingly lower than projected at the 2013 Budget of 8 percent due to strong appreciation of the Kina over the last 2 years.

The Government is committed to making sure that its fiscal and monetary policies are well managed to ensure inflation is minimized and price stability is maintained.

In terms of the outlook, risks to the PNG economy remain modest. The main drivers of our economic growth are internal and currently they are generally positive and stable. External factors cannot be ignored particularly further movements in commodity prices and the possible impact of further exchange rate movements. Key risks to the Economic and Fiscal Outlook include:

- The continued depressed global economic conditions which have increased the downside risks to commodity prices. If continued in 2014 and over the medium term, would further affect Government revenue
- Disruptions to the construction completion stage and first gas production of PNG LNG including any disruptions to other major mines
- Inflation moving higher in response to the continuation of the recent depreciation of the Kina
- Risks in being able to fully finance the deficit from domestic funds(considered a low risk in 2013 but higher in the outer years)
- Loss of fiscal discipline including the possible emergence of off-budget expenditure pressures
- Capacity constraints preventing full implementation of the Budget and the risk of any possible under-expenditures being redirected towards less effective expenditures

Early assessment of the implementation of the capital works component of the 2013 Budget shows a trend toward low expenditures with many projects facing delays. As part of the 2014 Budget Strategy, the Government will shift these funds from such timing delays from 2013 to 2014 and future years.

Therefore, the Government is placing more emphasis on more effective cost benefits analyses to determine our priorities. We must then apply more rigourous project design, procurement, implementation and post completion evaluation. These are the necessary elements of good project management.

The PNG LNG project which is a single largest project the country has ever experienced has nearly completed its construction r and is on target for first gas next year. The project is expected to generate significant revenues therefore deliberate care must be taken with the windfall gains. For this reason, we have developed a Sovereign Wealth Fund (SWF) using world’s best practice – the Santiago Principles and then localizing it to suit our needs. This SWF is expected to contribute to macroeconomic stability and provide ongoing funding to our Government’s budget. The SWF Organic Law is currently being reviewed to ensure consistency with its policy objectives as outlined by the Government and also to meet some of the Constitutional requirements. The aim now is to introduce this Organic Law before the end of this year and have the Fund operational by next year. The funds will be managed on-shore and invested off-shore and therefore will minimize the effect of large foreign exchange inflows on domestic liquidity and reduce upward pressure on the exchange rate.

In terms of promoting private-sector investment and growth, it is important to provide an environment that is conducive to macroeconomic stability as well as microeconomic reform. This will then reduce poverty and promote Papua New Guinea's economic and social development, which will be driven largely by a competitive and dynamic private sector. Options for further reforms include structural reforms to the regulatory and institutional environment. In the social sector, the Government has realized the importance of human resource development to carry the country forward. As outlined in the country's Medium Term Development Plan, the Government has rigorously targeted the education by introducing tuition free education. These policies and reforms are expected to improve the living standards of 85 per cent of Papua New Guinean population who are rural based.

With the support of our development partners, Papua New Guinea will continue to play a lead role in implementing policies in the Pacific Region such as addressing Gender Based Violence and supporting implementation of gender equity programs, implementation of the Extractive Industries Transparency Initiative (EITI), and the introduction of budget reforms including the adoption of global practices in the preparation of the Medium Term Development Plan (MTDP) and the Medium Term Fiscal Strategy (MTFS).

Working together, we can ensure that our efforts complement each other and are directed in the most effective way for the benefit of all of us.

To conclude, I would like once again to acknowledge and express my Government's sincere gratitude to the management and staff of the World Bank Group and the Fund for their continuous support in Papua New Guinea's development efforts. The Government is desirous that this partnership continues into the future as we strive to address the many development challenges that we are confronted with. An effective partnership in the long term is important because this will contribute to economic growth and development and will improve the lives of our people.

Thank you.